

**Mary Taylor, CPA**  
Auditor of State



**FINANCIAL CONDITION  
DEFIANCE COUNTY**

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# Mary Taylor, CPA

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## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

Defiance County  
500 Court Street, Suite A  
Defiance, Ohio 43512-2171

To the Board of Commissioners:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Defiance County, Ohio (the County), as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Defiance County, Ohio, as of December 31, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General Fund, Mental Retardation and Developmental Disabilities Fund, Job and Family Services Fund, Motor Vehicle and Gas Tax Fund, Emergency 911 Fund, and Senior Center Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2007, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the County's basic financial statements. The schedule of federal awards expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of Local Governments, and Non-Profit Organizations* and is also not a required part of the basic financial statements. We subjected the schedule of federal awards expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

August 13, 2007

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED**

The management's discussion and analysis of Defiance County's (the County) financial performance provides an overall review of the County's financial activities for the year ended December 31, 2006. The intent of this discussion and analysis is to look at the County's financial performance as a whole; readers should also review the notes to the basic financial statements and the basic financial statements to enhance their understanding of the County's financial performance.

**Financial Highlights**

Key financial highlights for 2006 are as follows:

- The total net assets of the County increased \$6,417,385. Net assets of governmental activities increased \$5,449,916, which represents a 7.36% increase over fiscal year 2005. Net assets of business-type activities increased \$967,469 or 5.38% from fiscal year 2005.
- General revenues accounted for \$14,851,731 or 42.62% of total governmental activities revenue. Program specific revenues accounted for \$19,996,168 or 57.38% of total governmental activities revenue.
- The County had \$29,397,983 in expenses related to governmental activities; \$19,996,168 of these expenses was offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$14,851,731 were adequate to provide for these programs.
- The General fund, the County's largest major governmental fund, had revenues of \$11,517,925 in 2006, an increase of \$562,983 or 5.14% from 2005 revenues. The General fund, had expenditures and other financing uses of \$12,551,881 in 2006, an increase of \$2,138,990 or 20.54% from 2005. The increase in revenues and even larger increase in expenditures contributed to the General fund balance decrease of \$1,033,956 from 2005 to 2006.
- The Mental Retardation and Developmental Disabilities (MR/DD) fund, a major governmental fund, had revenues of \$4,410,238 in 2006, a decrease of \$173,421 or 3.78% from 2005 revenues. The MR/DD fund, had expenditures of \$3,862,034 in 2006, a decrease of \$322,170 or 7.70% from 2005. The larger decrease in expenditures than in revenues contributed to the MR/DD fund balance increase of \$548,204 from 2005 to 2006.
- The Job and Family Services fund, a major governmental fund, had revenues and other financing sources of \$3,103,893 in 2006, an increase of \$1,004,137 or 47.82% from 2005 revenues. The Job and Family services fund, had expenditures of \$3,130,135 in 2006, an increase of \$765,280 or 32.36% from 2005. The greater increase in expenditures than in revenues contributed to the Job and Family services fund balance decrease of \$26,242 from 2005 to 2006.
- The Motor Vehicle License and Gas Tax fund, a major governmental fund, had revenues and other financing sources of \$4,692,678 in 2006, an increase of \$545,787 or 13.16% from 2005 revenues. The Motor Vehicle License and Gas Tax fund, had expenditures of \$4,201,486 in 2006, a decrease of \$1,158,141 or 21.61% from 2005. The increase in revenues and decrease in expenditures contributed to the Motor Vehicle License and Gas Tax fund balance increase of \$491,192 from 2005 to 2006.
- The Emergency 911 fund, a major governmental fund, had revenues of \$847,798 in 2006, an increase of \$6,506 or 0.77% from 2005 revenues. The Emergency 911 fund, had expenditures of \$697,288 in 2006, an increase of \$15,047 or 2.21% from 2005. Overall revenues were greater than expenditures which contributed to the Emergency 911 fund balance increase of \$150,510 from 2005 to 2006.

**FINANCIAL CONDITION  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
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- The Senior Center fund, a major governmental fund, had revenues of \$1,123,202 in 2006, a decrease of \$116,799 or 9.42% from 2005 revenues. The Senior Center fund, had expenditures of \$1,192,688 in 2006, an increase of \$47,286 or 4.13% from 2005. The increase in expenditures and the decrease in revenues contributed to the Senior Center fund balance decrease of \$69,486 from 2005 to 2006.
- Net assets for the business-type activities, which are made up of the Landfill and Sewer enterprise funds, increased in 2006 by \$967,469. This increase in net assets was mainly due to charges for services revenue being greater than operating expenses.
- In the general fund, the actual revenues came in \$3,676,530 higher than they were originally budgeted and actual expenditures were \$3,785,441 less than the amount in the original budget. These positive variances are a result of the County's conservative budgeting process.

**Using these Basic Financial Statements (BFS)**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the County as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole County, presenting both an aggregate view of the County's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the County's most significant funds with all other nonmajor funds presented in total in one column. In the case of the County, there are six major governmental funds. The general fund is the largest major fund.

**Reporting the County as a Whole**

***Statement of Net Assets and the Statement of Activities***

The Statement of Net Assets and the Statement of Activities answer the question, "How did we do financially during 2006?" These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the County's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the County as a whole, the financial position of the County has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the County's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, and other factors.

In the Statement of Net Assets and the Statement of Activities, the County is divided into two distinct kinds of activities:

Governmental Activities - Most of the County's programs and services are reported here including human services, health, public safety, public works and general government. These services are funded primarily by taxes and intergovernmental revenues including federal and state grants and other shared revenues.

**FINANCIAL CONDITION  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
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Business-Type Activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided.

**Reporting the County's Most Significant Funds**

***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Fund financial reports provide detailed information about the County's major funds. The County uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the County's most significant funds. The County's major governmental funds are the General Fund, Mental Retardation and Developmental Disabilities Fund (MR/DD), Job and Family Services Fund, Motor Vehicle and Gas Tax Fund, Emergency 911 Fund, and Senior Center Fund. The County's major enterprise funds are the Landfill and Sewer funds.

***Governmental Funds***

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains a multitude of individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances for the major funds, which were identified earlier. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

***Proprietary Funds***

The County maintains proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its landfill and sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County's internal service fund accounts for medical/surgical and dental self-insurance.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
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(Continued)**

***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the County's only fiduciary fund type.

***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Government-Wide Financial Analysis**

The Statement of Net Assets provides the perspective of the County as a whole. The table below provides a summary of the County's net assets for 2006 and 2005.

	<b>Net Assets</b>					
	Governmental Activities 2006	Business-type Activities 2006	Governmental Activities 2005	Business-type Activities 2005	2006 Total	2005 Total
	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>	<u>Total</u>	<u>Total</u>
<b><u>Assets</u></b>						
Current and other assets	\$ 39,909,888	\$ 14,927,934	\$ 38,319,081	\$ 13,616,646	\$ 54,837,822	\$ 51,935,727
Capital assets, net	54,341,990	7,628,470	50,702,405	7,553,038	61,970,460	58,255,443
Total assets	<u>94,251,878</u>	<u>22,556,404</u>	<u>89,021,486</u>	<u>21,169,684</u>	<u>116,808,282</u>	<u>110,191,170</u>
<b><u>Liabilities</u></b>						
Other liabilities	6,705,057	165,155	9,071,120	132,763	6,870,212	9,203,883
Long-term liabilities outstanding	7,999,606	3,436,604	5,853,067	3,049,745	11,436,210	8,902,812
Total liabilities	<u>14,704,663</u>	<u>3,601,759</u>	<u>14,924,187</u>	<u>3,182,508</u>	<u>18,306,422</u>	<u>18,106,695</u>
<b><u>Net Assets</u></b>						
Invested in capital assets, net of related debt	50,636,990	7,447,470	46,518,406	7,358,038	58,084,460	53,876,444
Restricted	20,932,989	1,343,050	18,970,753	1,500,770	22,276,039	20,471,523
Unrestricted	7,977,236	10,164,125	8,608,140	9,128,368	18,141,361	17,736,508
Total net assets	<u>\$ 79,547,215</u>	<u>\$ 18,954,645</u>	<u>\$ 74,097,299</u>	<u>\$ 17,987,176</u>	<u>\$ 98,501,860</u>	<u>\$ 92,084,475</u>

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED  
(Continued)**

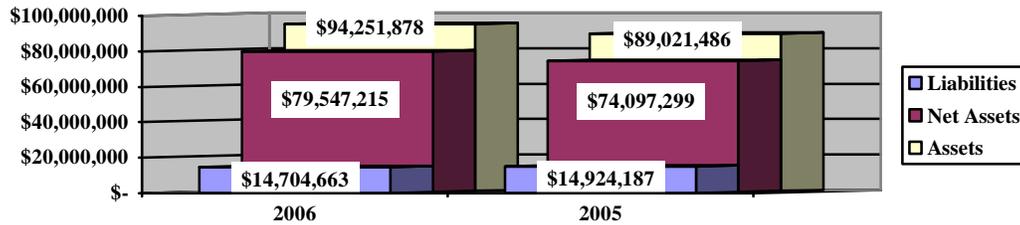
Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2006, the County's assets exceeded liabilities by \$98,501,860. This amounts to \$79,547,215 in governmental activities and \$18,954,645 in business-type activities.

Capital assets reported on the government-wide statements represent the largest portion of the County's assets. At year-end, capital assets represented 53.05% of total governmental and business-type assets. Capital assets include land, buildings and improvements, equipment, vehicles, construction in progress and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2006, were \$58,084,460. These capital assets are used to provide services to citizens and are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

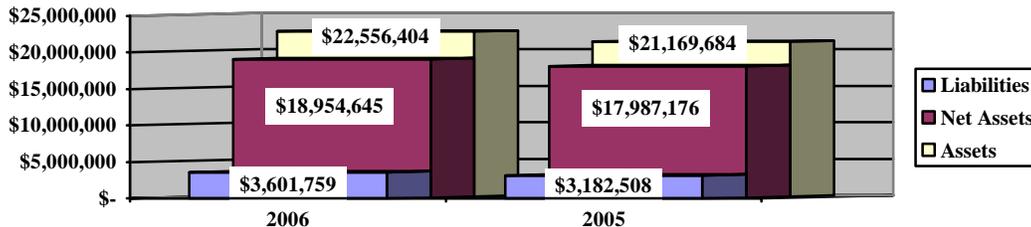
As of December 31, 2006, the County is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the County's net assets, \$22,276,039 or 22.61%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$18,141,361 may be used to meet the government's ongoing obligations to citizens and creditors.

**Governmental Activities**



**Business-Type Activities**



**FINANCIAL CONDITION  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED  
(Continued)**

The table below shows the changes in net assets for fiscal year 2006 and 2005.

**Change in Net Assets**

	Governmental Activities <u>2006</u>	Business-type Activities <u>2006</u>	Governmental Activities <u>2005</u>	Business-type Activities <u>2005</u>	Total <u>2006</u>	Total <u>2005</u>
<b>Revenues</b>						
Program revenues:						
Charges for services and sales	\$ 4,502,033	\$ 3,767,164	\$ 4,371,028	\$ 3,416,803	\$ 8,269,197	\$ 7,787,831
Operating grants and contributions	12,294,126		13,095,647		12,294,126	13,095,647
Capital grants and contributions	<u>3,200,009</u>	<u>110,344</u>	<u>726,449</u>	<u>577,554</u>	<u>3,310,353</u>	<u>1,304,003</u>
Total program revenues	<u>19,996,168</u>	<u>3,877,508</u>	<u>18,193,124</u>	<u>3,994,357</u>	<u>23,873,676</u>	<u>22,187,481</u>
General revenues:						
Property taxes	5,330,970		5,214,657		5,330,970	5,214,657
Sales tax	4,546,017		4,433,635		4,546,017	4,433,635
Unrestricted grants	1,198,763		1,169,979		1,198,763	1,169,979
Investment earnings	2,365,093	174,783	1,631,377	138,515	2,539,876	1,769,892
Other	<u>1,410,888</u>	<u>21,077</u>	<u>1,438,794</u>	<u>29,951</u>	<u>1,431,965</u>	<u>1,468,745</u>
Total general revenues	<u>14,851,731</u>	<u>195,860</u>	<u>13,888,442</u>	<u>168,466</u>	<u>15,047,591</u>	<u>14,056,908</u>
Total revenues	<u>34,847,899</u>	<u>4,073,368</u>	<u>32,081,566</u>	<u>4,162,823</u>	<u>38,921,267</u>	<u>36,244,389</u>
Special item:						
Gain on sale of capital assets			<u>1,175,551</u>			<u>1,175,551</u>
Total revenues and special items	<u>34,847,899</u>	<u>4,073,368</u>	<u>33,257,117</u>	<u>4,162,823</u>	<u>38,921,267</u>	<u>37,419,940</u>

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED  
(Continued)**

	<b>Change in Net Assets</b>					
	Governmental	Business-type	Governmental	Business-type	Total	Total
	Activities 2006	Activities 2006	Activities 2005	Activities 2005	2006	2005
<b>Expenses</b>						
Program Expenses:						
General government						
Legislative and executive	4,965,588		5,828,899		4,965,588	5,828,899
Judicial	1,455,429		1,542,892		1,455,429	1,542,892
Public safety	4,402,936		4,421,557		4,402,936	4,421,557
Public works	6,561,775		7,369,337		6,561,775	7,369,337
Health	4,136,186		4,216,895		4,136,186	4,216,895
Human services	6,501,309		5,910,202		6,501,309	5,910,202
Conservation and recreation	4,315		6,438		4,315	6,438
Economic development	776,986		483,702		776,986	483,702
Interest and fiscal charges	593,459		246,246		593,459	246,246
Landfill		2,813,193		2,345,933	2,813,193	2,345,933
Sewer		292,706		723,640	292,706	723,640
<b>Total expenses</b>	<b>29,397,983</b>	<b>3,105,899</b>	<b>30,026,168</b>	<b>3,069,573</b>	<b>32,503,882</b>	<b>33,095,741</b>
<b>Change in net assets</b>	<b>5,449,916</b>	<b>967,469</b>	<b>3,230,949</b>	<b>1,093,250</b>	<b>6,417,385</b>	<b>4,324,199</b>
<b>Net assets at beginning of year (restated)</b>	<b>74,097,299</b>	<b>17,987,176</b>	<b>70,866,350</b>	<b>16,893,926</b>	<b>92,084,475</b>	<b>87,760,276</b>
<b>Net assets at end of year</b>	<b>\$ 79,547,215</b>	<b>\$ 18,954,645</b>	<b>\$ 74,097,299</b>	<b>\$ 17,987,176</b>	<b>\$ 98,501,860</b>	<b>\$ 92,084,475</b>

**Governmental Activities**

Governmental net assets increased by \$5,449,916 in 2006 over 2005. This increase is due to increased revenues still being higher than increased expenses. A large portion of this increase is due to a \$2,473,560 increase in capital grants and contributions.

Human services expenses support the operations of Family Services (Public Assistance), Veteran Services, and the Children Services Board, and accounts for \$6,501,309 of expenses, or 22.11% of total governmental expenses of the County. These expenses were funded by \$162,127 in direct charges to users and \$4,038,202 in operating grants and contributions in 2006. General government expenses which includes legislative and executive and judicial programs, accounted for \$6,421,017 or 21.84% of total governmental expenses. General government expenses were covered by \$2,584,429 of direct charges to users and \$210,777 in operating grants and contributions in 2006.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

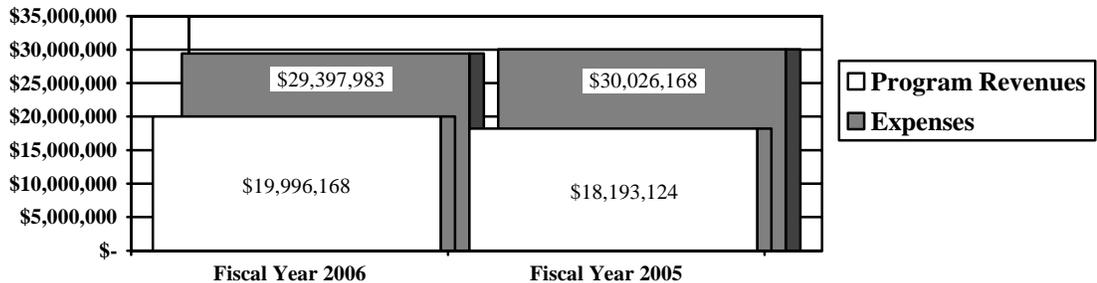
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
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(Continued)**

The state and federal government contributed to the County revenues of \$12,294,126 in operating grants and contributions and \$3,200,009 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total, operating grants and contributions, \$4,038,202 or 32.8%, subsidized human services programs.

General revenues totaled \$14,851,731, and amounted to 42.62% of total revenues. These revenues primarily consist of property and sales tax revenue of \$9,876,987, or 66.5% of total general revenues in 2006. The other primary source of general revenues is grants and entitlements not restricted to specific programs, with operating grants consisting of local government and local government revenue assistance making up \$1,198,763, or 8.07% of the total.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2006 and 2005. That is, it identifies the cost of these services supported by general revenues (such as tax revenue and unrestricted state grants and entitlements). As can be seen in the graph below, the County is reliant upon general revenues to finance operations as program revenues are not sufficient to cover total expenses.

**Governmental Activities – Program Revenues vs. Total Expenses**



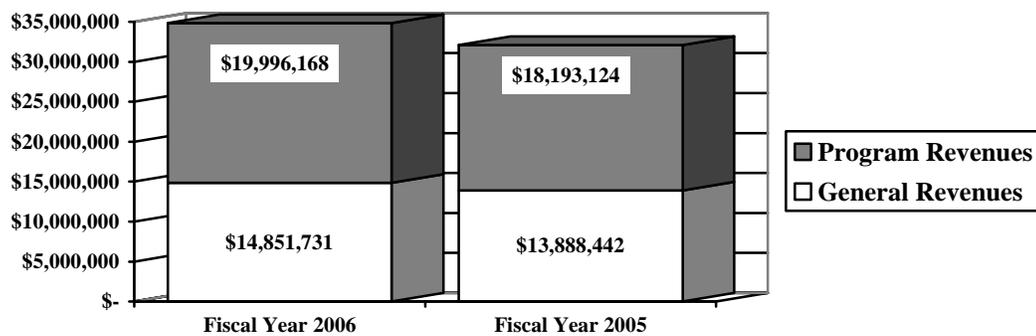
**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
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	<b>Governmental Activities</b>			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>
Program Expenses:				
General government				
Legislative and executive	\$ 4,965,588	\$ 2,768,891	\$ 5,828,899	\$ 2,418,445
Judicial	1,455,429	856,920	1,542,892	980,291
Public safety	4,402,936	3,708,561	4,421,557	3,652,214
Public works	6,561,775	(2,432,560)	7,369,337	2,262,266
Health	4,136,186	1,758,752	4,216,895	1,670,029
Human services	6,501,309	2,300,980	5,910,202	344,513
Conservation and recreation	4,315	4,315	6,438	6,438
Economic development	776,986	(157,503)	483,702	252,602
Interest and fiscal charges	<u>593,459</u>	<u>593,459</u>	<u>246,246</u>	<u>246,246</u>
<b>Total</b>	<b><u>\$ 29,397,983</u></b>	<b><u>\$ 9,401,815</u></b>	<b><u>\$ 30,026,168</u></b>	<b><u>\$ 11,833,044</u></b>

The dependence upon general revenues for governmental activities is apparent, with 31.98% of expenses supported through taxes and other general revenues during 2006. The graph below illustrates the County's reliance upon general revenues.

**Governmental Activities – General and Program Revenues**

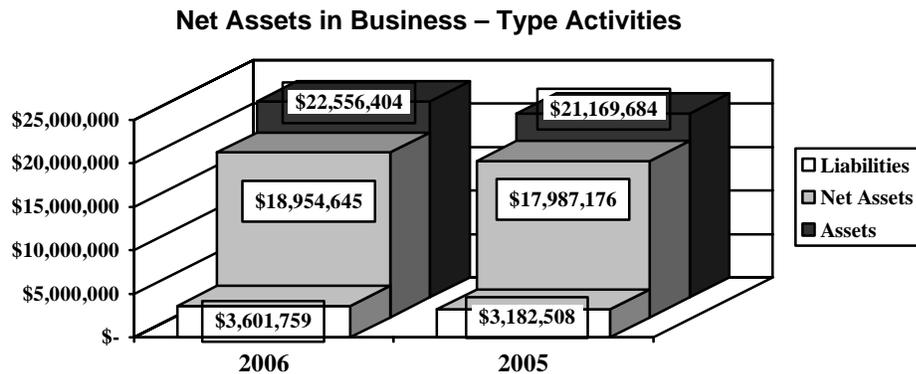


**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED  
(Continued)**

**Business-Type Activities**

The Landfill and Sewer are the County's enterprise funds. These operations had program revenues of \$3,877,508, general revenues of \$195,860, and expenses of \$3,105,899 for fiscal year 2006. The net assets of the enterprise funds increased \$967,469 or 5.38% during 2006. The following graph illustrates the assets, liabilities and net assets of the County's business-type activities at December 31, 2006:



**Financial Analysis of the Government's Funds**

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**

The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the County's net resources available for spending at year-end.

The County's governmental funds reported a combined fund balance of \$24,198,482, which is \$3,143,913 above last year's total of \$21,054,569. The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2006, for all major and nonmajor governmental funds.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED  
(Continued)**

	<u>Fund Balance</u> <u>December 31, 2006</u>	<u>Fund Balance</u> <u>December 31, 2005</u>	<u>Increase</u> <u>(Decrease)</u>
Major Funds:			
General	\$ 9,045,914	\$ 10,079,870	\$ (1,033,956)
Mental Retardation and Developmental Disabilities	2,764,145	2,215,941	548,204
Job and Family Services	191,231	217,473	(26,242)
Motor Vehicle License and Gas Tax	890,967	399,775	491,192
Emergency 911	382,120	231,610	150,510
Senior Center	652,857	722,343	(69,486)
Other Nonmajor Governmental Funds	<u>10,271,248</u>	<u>7,187,557</u>	<u>3,083,691</u>
Total	<u>\$ 24,198,482</u>	<u>\$ 21,054,569</u>	<u>\$ 3,143,913</u>

**General Fund**

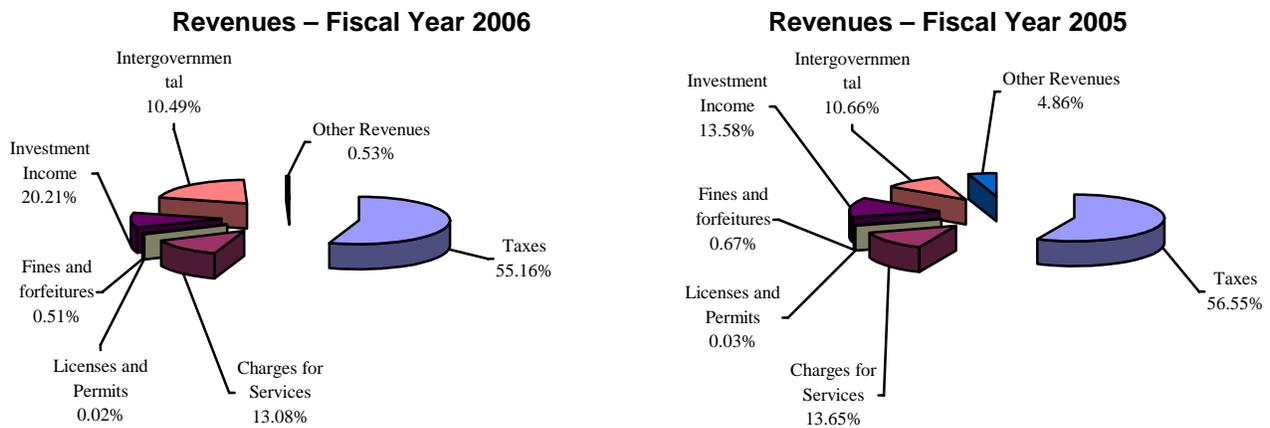
The County's general fund balance decreased \$1,033,956, primarily due to an increase overall expenditures and transfers out. The table that follows assists in illustrating the revenues of the general fund.

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b>Revenues</b>			
Taxes	\$ 6,353,253	\$ 6,194,842	2.56 %
Charges for services	1,506,301	1,494,945	0.76 %
Licenses and permits	2,943	3,703	(20.52) %
Fines and forfeitures	58,373	72,933	(19.96) %
Intergovernmental	1,208,010	1,168,161	3.41 %
Investment income	2,327,910	1,487,362	56.51 %
Other	<u>61,135</u>	<u>532,996</u>	(88.53) %
Total	<u>\$ 11,517,925</u>	<u>\$ 10,954,942</u>	5.14 %

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED  
(Continued)**

Tax revenue represents 55.16% of all general fund revenue. Tax revenue increased slightly by 2.56% over prior year. The increase in investment income is primarily due to an increase in the interest rates the County receives on its investments. All other revenue remained comparable to 2005.



The table that follows assists in illustrating the expenditures of the general fund.

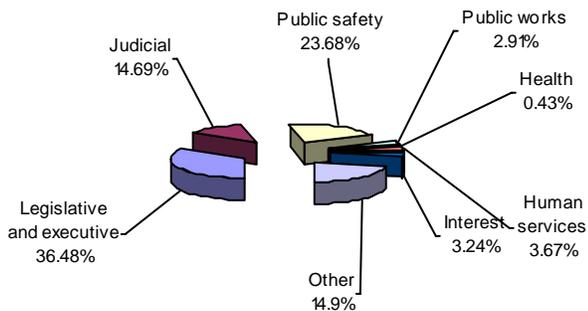
<u>Expenditures</u>	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Percentage Change</u>
General government			
Legislative and executive	\$ 3,037,045	\$ 2,953,467	2.83 %
Judicial	1,223,291	1,231,737	(0.69) %
Public safety	1,971,265	1,900,464	3.73 %
Public works	242,035	205,534	17.76 %
Health	36,243	41,977	(13.66) %
Human services	305,384	311,610	(2.00) %
Interest expense	269,691		100.00 %
Other	1,240,851	1,898,485	(34.64) %
<b>Total</b>	<b>\$ 8,325,805</b>	<b>\$ 8,543,274</b>	<b>(2.55) %</b>

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

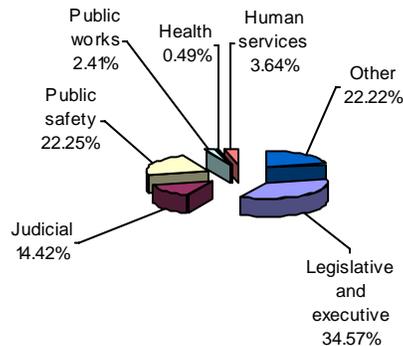
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED  
(Continued)**

The most significant decreases as a percentage change are in the areas of Public Works and Health; however as a dollar amount the changes are not significant. All other expenditures remained comparable to 2005.

**Expenditures - Fiscal Year 2006**



**Expenditures - Fiscal Year 2005**



***Mental Retardation and Developmental Disabilities (MR/DD) Fund***

The Mental Retardation and Developmental Disabilities (MR/DD) fund, a major governmental fund, had revenues of \$4,410,238 in 2006, a decrease of \$173,421 or 3.78% from 2005 revenues. The MR/DD fund, had expenditures of \$3,862,034 in 2006, a decrease of \$322,170 or 7.7% from 2005 which was mainly due to an increase in payroll expenditures. The larger decrease in expenditures than in revenues contributed to the MR/DD fund balance increase of \$548,204 from 2005 to 2006.

***Job and Family Services Fund***

The Job and Family Services fund, a major governmental fund, had revenues and other financing sources of \$3,103,893 in 2006, an increase of 1,004,137 or 47.82% from 2005 revenues, due to an increase in grant revenue. The Job and Family services fund, had expenditures of \$3,130,135 in 2006, an increase of \$765,280 or 32.36% from 2005 due to an increase in the amount of services provided. Overall expenditures were greater than revenues which contributed to the Job and Family services fund balance decrease of \$26,242 from 2005 to 2006.

***Motor Vehicle License and Gas Tax Fund***

The Motor Vehicle License and Gas Tax fund, a major governmental fund, had revenues and other financing sources of \$4,692,678 in 2006, an increase of \$545,787 or 13.16% from 2005 revenues, due to an increase in state reimbursements. The Motor Vehicle License and Gas Tax fund, had expenditures of \$4,201,486 in 2006, a decrease of \$1,158,141 or 21.61% from 2005, due to a decrease in contract expenditures. The larger increase in revenues than the decrease in expenditures contributed to the Motor Vehicle License and Gas Tax fund balance increase of \$491,192 from 2005 to 2006.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED  
(Continued)**

***Emergency 911 Fund***

The Emergency 911 fund, a major governmental fund, had revenues of \$847,798 in 2006, an increase of \$6,506 or 0.77% from 2005 revenues. The Emergency 911 fund, had expenditures of \$697,288 in 2006, an increase of \$15,047 or 2.21% from 2005. Overall revenues were greater than expenditures which contributed to the Emergency 911 fund balance increase of \$150,510 from 2005 to 2006.

***Senior Center Fund***

The Senior Center fund, a major governmental fund, had revenues of \$1,123,202 in 2006, a decrease of \$116,799 or 9.42% from 2005 revenues, mainly due to an decrease in taxes apportioned to general operations. The Senior Center fund, had expenditures of \$1,192,688 in 2006, an increase of \$47,286 or 4.13% from 2005. The increase in expenditures and the decrease in revenues contributed to the Senior Center fund balance decrease of \$69,486 from 2005 to 2006.

***Budgeting Highlights - General Fund***

The County's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the County's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the County's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

Budgetary information is presented for the general fund, MR/DD fund, job and family services fund, motor vehicle license and gas tax fund, emergency 911 fund, and senior center fund. In the general fund, the original budgeted revenues and other financing sources were \$7,946,678 these were increased to \$14,172,946 in the final budget. Actual revenues and other financing sources of \$13,437,968 were less than final budgeted revenues by \$734,978 or 5.19%. This variance is primarily due to interfund reimbursements that were included in budgeted revenues but were eliminated from actual revenues when the financial statements were prepared. In the general fund, the original budgeted appropriations were \$14,903,524 which were increased to \$21,129,792 in the final budget. Actual expenditures and other financing uses of \$13,900,114 were less than final budgeted appropriations by \$7,229,678 or 34.22%. Actual expenditures being lower than final budgeted expenditures are a result of the County's conservative budgeting practices.

***Proprietary Funds***

The County's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, but in more detail.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED  
(Continued)**

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of 2006, the County had \$61,970,460 (net of accumulated depreciation) invested in land, buildings and improvements, furniture and equipment, vehicles, construction in progress, sewer lines and infrastructure. Of this total, \$54,341,990 was reported in governmental activities and \$7,628,470 was reported in business-type activities. The following table shows fiscal 2006 balances compared to 2005:

**Capital Assets at December 31  
(Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 886,031	\$ 886,031	\$ 997,099	\$ 997,099	\$ 1,883,130	\$ 1,883,130
Building and improvements	12,281,032	11,446,219	245,301	251,625	12,526,333	11,697,844
Furniture and equipment	1,591,553	1,071,190	1,085,553	1,308,438	2,677,106	2,379,628
Vehicles	1,298,419	1,262,742	69,318	68,291	1,367,737	1,331,033
Infrastructure	38,284,955	36,036,223			38,284,955	36,036,223
Sewer lines			4,441,859	2,657,978	4,441,859	2,657,978
Construction in progress	<u>                    </u>	<u>                    </u>	<u>789,340</u>	<u>2,269,607</u>	<u>789,340</u>	<u>2,269,607</u>
<b>Total</b>	<u><b>\$ 54,341,990</b></u>	<u><b>\$ 50,702,405</b></u>	<u><b>\$ 7,628,470</b></u>	<u><b>\$ 7,553,038</b></u>	<u><b>\$ 61,970,460</b></u>	<u><b>\$ 58,255,443</b></u>

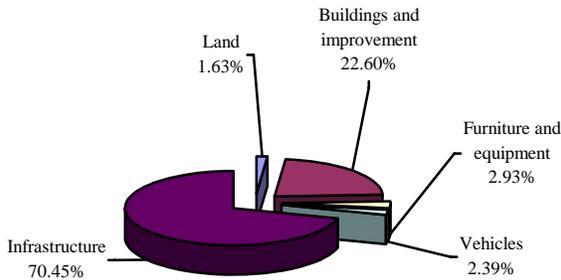
See Note 9 to the basic financial statements for detail on governmental activities and business-type activities capital assets.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

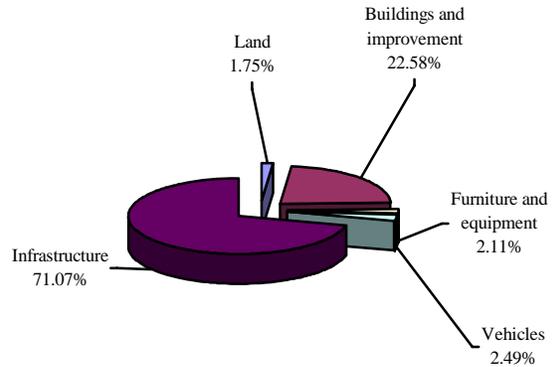
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED  
(Continued)**

The following graphs show the breakdown of governmental capital assets by category for 2006 and 2005.

**Capital Assets - Governmental Activities 2006**



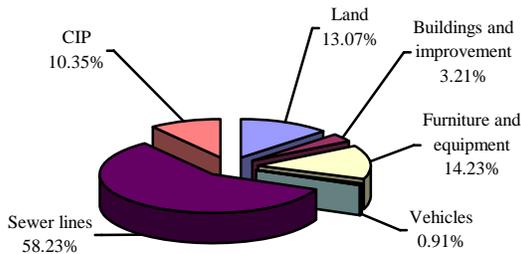
**Capital Assets - Governmental Activities 2005**



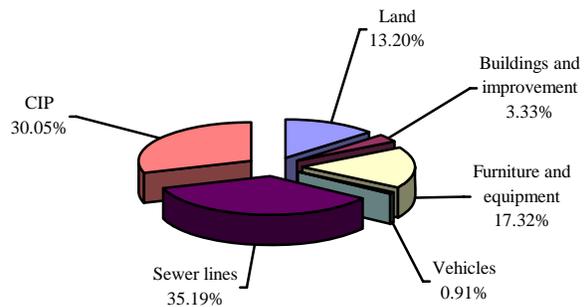
The County's largest capital asset category is infrastructure which includes roads, bridges and culverts. These items are immovable and of value only to the County, however, the annual cost of purchasing these items is quite significant. The net book value of the County's infrastructure (cost less accumulated depreciation) represents approximately 70.45% of the County's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2006 and 2005.

**Capital Assets - Business-Type Activities 2006**



**Capital Assets - Business-Type Activities 2005**



The County's largest business-type capital asset category is sewer mains. These items play a vital role in the income producing ability of the business-type activities. The net book value of the County's sewer lines (cost less accumulated depreciation) represents approximately 58.23% of the County's total business-type capital assets.

**Debt Administration**

At December 31, 2006, the County had \$2,365,000 in general obligation bonds, \$1,132,500 in special

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED  
(Continued)**

assessment bonds, \$60,000 in sewer revenue bonds, \$1,900,000 in bond anticipation notes, OPWC loans of \$292,531, OWDA loans of \$1,116,249, Capmark commercial mortgage of \$86,000 and landfill closure and post-closure of \$3,160,085 outstanding. Of this total, \$2,172,723 is due within one year and \$7,939,642 is due within greater than one year. The following table summarizes the bonds and loans outstanding.

**Outstanding Debt, at Year End**

	Governmental Activities <u>2006</u>	Business-Type Activities <u>2006</u>	Governmental Activities <u>2005</u>	Business-Type Activities <u>2005</u>
Long-Term Obligations				
General obligation bonds:	\$ 2,330,000	\$ 35,000	\$ 2,445,000	\$ 45,000
Special assessment bonds	1,132,500		1,178,500	
Sewer revenue bonds		60,000		60,000
Bond Anticipation notes	1,900,000			
OPWC loans	292,531		315,932	
OWDA loans	1,116,249		918,286	
Capmark commercial mortgage		86,000		90,000
Closure and postclosure		<u>3,160,085</u>		<u>2,777,582</u>
Total	<u>\$ 6,771,280</u>	<u>\$ 3,341,085</u>	<u>\$ 4,857,718</u>	<u>\$ 2,972,582</u>

See Note 17 to the basic financial statements for detail on governmental activities and business-type activities long-term obligations.

**Economic Factors and Next Year's Budgets and Rates**

The County's current estimated population as of July 1, 2004 (the latest information available from the 2000 census) is 39,500.

As of December 31, 2006, as reported by the Ohio Job and Family Services Office of Workforce Development and Bureau of Labor Market Information the County's unemployment rates was 5.6%, compared to the 5.5% unadjusted state rate and the 4.6% unadjusted national rate.

These economic factors were considered in preparing the County's budget for fiscal year 2007.

**Contacting the County's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Marlene J. Goodwin, Defiance County Auditor, 221 Clinton Street, Defiance, Ohio 43512-2171.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2006**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents. . . . .	\$ 24,142,556	\$ 10,151,415	\$ 34,293,971
Cash and cash equivalents in segregated accounts . . . . .	146,401	325	146,726
Cash and cash equivalents with fiscal agent. . . . .	2,161		2,161
Investments . . . . .		4,148,756	4,148,756
Receivables (net of allowances for uncollectibles):			
Sales taxes . . . . .	737,635		737,635
Real estate and other taxes . . . . .	5,826,704		5,826,704
Accounts . . . . .	231,767	506,820	738,587
Intergovernmental . . . . .	5,121,887		5,121,887
Special assessments . . . . .	2,366,516		2,366,516
Accrued interest . . . . .	113,244	16,818	130,062
Loans . . . . .	255,137		255,137
Internal balances . . . . .	(8,786)	8,786	
Prepayments . . . . .	564,504	90,371	654,875
Materials and supplies inventory. . . . .	410,162	4,643	414,805
Capital assets:			
Land and construction in progress . . . . .	886,031	1,786,439	2,672,470
Depreciable capital assets, net. . . . .	53,455,959	5,842,031	59,297,990
Total capital assets. . . . .	<u>54,341,990</u>	<u>7,628,470</u>	<u>61,970,460</u>
Total assets. . . . .	<u>94,251,878</u>	<u>22,556,404</u>	<u>116,808,282</u>
<b>Liabilities:</b>			
Accounts payable. . . . .	335,727	69,318	405,045
Accrued wages and benefits . . . . .	209,837	8,143	217,980
Due to other governments . . . . .	279,655	86,522	366,177
Accrued interest payable. . . . .	54,020	1,172	55,192
Notes payable . . . . .	314,100		314,100
Claims payable. . . . .	46,050		46,050
Deferred revenue. . . . .	5,465,668		5,465,668
Long-term liabilities:			
Due within one year. . . . .	2,591,199	39,641	2,630,840
Due in more than one year . . . . .	5,408,407	3,396,963	8,805,370
Total liabilities . . . . .	<u>14,704,663</u>	<u>3,601,759</u>	<u>18,306,422</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt. . . . .	50,636,990	7,447,470	58,084,460
Restricted for:			
Debt service . . . . .	4,561,863		4,561,863
Capital projects . . . . .	2,952,345		2,952,345
Other purposes . . . . .	3,393,009		3,393,009
Human services programs . . . . .	1,773,719		1,773,719
Public works projects . . . . .	2,442,195		2,442,195
Public safety programs. . . . .	2,912,120		2,912,120
Health Services . . . . .	2,897,738		2,897,738
Landfill closure and postclosure . . . . .		1,343,050	1,343,050
Unrestricted . . . . .	7,977,236	10,164,125	18,141,361
Total net assets. . . . .	<u>\$ 79,547,215</u>	<u>\$ 18,954,645</u>	<u>\$ 98,501,860</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Governmental Activities:</b>				
General government:				
Legislative and executive . . . . .	\$ 4,965,588	\$ 2,190,708	\$ 5,989	
Judicial . . . . .	1,455,429	393,721	204,788	
Public safety . . . . .	4,402,936	505,984	188,391	
Public works . . . . .	6,561,775	1,017,335	4,776,991	\$ 3,200,009
Health . . . . .	4,136,186	226,508	2,150,926	
Human services . . . . .	6,501,309	162,127	4,038,202	
Conservation and recreation . . . . .	4,315			
Economic development . . . . .	776,986	5,650	928,839	
Interest and fiscal charges . . . . .	593,459			
Total governmental activities . . . . .	<u>29,397,983</u>	<u>4,502,033</u>	<u>12,294,126</u>	<u>3,200,009</u>
<b>Business-Type Activities:</b>				
Landfill . . . . .	2,813,193	3,254,386		
Sewer . . . . .	292,706	512,778		110,344
Total business-type activities . . . . .	<u>3,105,899</u>	<u>3,767,164</u>		<u>110,344</u>
Total . . . . .	<u>\$ 32,503,882</u>	<u>\$ 8,269,197</u>	<u>\$ 12,294,126</u>	<u>\$ 3,310,353</u>

**General Revenues:**

Property taxes levied for:	
General fund . . . . .	
Public safety - Emergency 911. . . . .	
Human services - County Board of MR/DD. . . . .	
Human services - Senior center . . . . .	
Sales taxes . . . . .	
Grants and entitlements not restricted to specific programs . . . . .	
Investment earnings. . . . .	
Miscellaneous. . . . .	
Total general revenues . . . . .	
Change in net assets . . . . .	
<b>Net assets at beginning of year. . . . .</b>	
<b>Net assets at end of year . . . . .</b>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue and Changes in Net Assets**

<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (2,768,891)		\$ (2,768,891)
(856,920)		(856,920)
(3,708,561)		(3,708,561)
2,432,560		2,432,560
(1,758,752)		(1,758,752)
(2,300,980)		(2,300,980)
(4,315)		(4,315)
157,503		157,503
(593,459)		(593,459)
<u>(9,401,815)</u>		<u>(9,401,815)</u>
	441,193	441,193
	330,416	330,416
	<u>771,609</u>	<u>771,609</u>
<u>(9,401,815)</u>	<u>771,609</u>	<u>(8,630,206)</u>
1,819,126		1,819,126
731,665		731,665
2,009,082		2,009,082
771,097		771,097
4,546,017		4,546,017
1,198,763		1,198,763
2,365,093	174,783	2,539,876
1,410,888	21,077	1,431,965
<u>14,851,731</u>	<u>195,860</u>	<u>15,047,591</u>
5,449,916	967,469	6,417,385
<u>74,097,299</u>	<u>17,987,176</u>	<u>92,084,475</u>
<u>\$ 79,547,215</u>	<u>\$ 18,954,645</u>	<u>\$ 98,501,860</u>

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2006**

	<b>General</b>	<b>Mental Retardation and Developmental Disabilities</b>	<b>Job and Family Services</b>	<b>Motor Vehicle and Gas Tax</b>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 6,656,857	\$ 2,562,691	\$ 66,062	\$ 402,411
Cash and cash equivalents in segregated accounts . . . . .	146,401			
Cash and cash equivalents with fiscal agent . . . . .		2,161		
Receivables (net of allowance for uncollectibles):				
Sales taxes . . . . .	737,635			
Real estate and other taxes . . . . .	1,750,775	2,424,795		
Accounts . . . . .	64,543			435
Intergovernmental . . . . .	541,686	90,782	810,589	2,100,668
Special assessments . . . . .				6,594
Accrued interest . . . . .	113,244			
Loans . . . . .				
Interfund loans . . . . .	1,668,602			
Due from other funds . . . . .	14,438			
Prepayments . . . . .	192,216	277,815	22,047	25,650
Materials and supplies inventory . . . . .	60,168	9,549	12,647	266,576
<b>Total assets . . . . .</b>	<b>\$ 11,946,565</b>	<b>\$ 5,367,793</b>	<b>\$ 911,345</b>	<b>\$ 2,802,334</b>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 78,799	\$ 13,658	\$ 90,836	\$ 8,896
Accrued wages and benefits . . . . .	70,541	44,224	27,665	21,678
Compensated absences payable . . . . .	193			
Due to other funds . . . . .			6,194	
Due to other governments . . . . .	106,475	35,662	45,950	22,475
Interfund loan payable . . . . .				
Accrued interest payable . . . . .				7,433
Notes payable . . . . .				
Deferred revenue . . . . .	2,644,643	2,510,104	549,469	1,850,885
<b>Total liabilities . . . . .</b>	<b>2,900,651</b>	<b>2,603,648</b>	<b>720,114</b>	<b>1,911,367</b>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	75,487	22,109	14,652	65,477
Reserved for unclaimed monies . . . . .	86,009			
Reserved for prepayments . . . . .	192,216	277,815	22,047	25,650
Reserved for materials and supplies inventory . . . . .	60,168	9,549	12,647	266,576
Reserved for interfund loans . . . . .	1,668,602			
Reserved for loans receivable . . . . .				
Reserved for debt service . . . . .				
Unreserved:				
Designated for retirement . . . . .				
Undesignated (deficit), reported in:				
General fund . . . . .	6,963,432			
Special revenue funds . . . . .		2,454,672	141,885	533,264
Debt service funds . . . . .				
Capital projects funds . . . . .				
<b>Total fund balances . . . . .</b>	<b>9,045,914</b>	<b>2,764,145</b>	<b>191,231</b>	<b>890,967</b>
<b>Total liabilities and fund balances . . . . .</b>	<b>\$ 11,946,565</b>	<b>\$ 5,367,793</b>	<b>\$ 911,345</b>	<b>\$ 2,802,334</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<b>Emergency 911</b>	<b>Senior Center</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 380,447	\$ 649,849	\$ 11,878,923	\$ 22,597,240
			146,401
			2,161
			737,635
878,084	773,050		5,826,704
1,919		164,870	231,767
33,527	99,588	1,445,047	5,121,887
		2,359,922	2,366,516
			113,244
		255,137	255,137
		64,235	1,732,837
			14,438
21,858	5,805	19,113	564,504
1,379	15,393	44,450	410,162
<u>\$ 1,317,214</u>	<u>\$ 1,543,685</u>	<u>\$ 16,231,697</u>	<u>\$ 40,120,633</u>
\$ 2,282	\$ 13,965	\$ 127,291	\$ 335,727
10,381	9,675	25,673	209,837
			193
		8,244	14,438
11,194	9,681	48,218	279,655
		1,717,585	1,717,585
		31,672	39,105
		314,100	314,100
911,237	857,507	3,687,666	13,011,511
<u>935,094</u>	<u>890,828</u>	<u>5,960,449</u>	<u>15,922,151</u>
7,294	9,128	237,599	431,746
			86,009
21,858	5,805	19,113	564,504
1,379	15,393	44,450	410,162
		64,235	1,732,837
		208,828	208,828
		2,489,227	2,489,227
		42,517	42,517
			6,963,432
351,589	622,531	4,720,176	8,824,117
		(337,708)	(337,708)
		2,782,811	2,782,811
<u>382,120</u>	<u>652,857</u>	<u>10,271,248</u>	<u>24,198,482</u>
<u>\$ 1,317,214</u>	<u>\$ 1,543,685</u>	<u>\$ 16,231,697</u>	<u>\$ 40,120,633</u>

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2006

<b>Total governmental fund balances</b>		\$ 24,198,482
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		54,341,990
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ 353,946	
Sales tax	389,653	
Intergovernmental revenues	4,392,714	
Special assessments	2,366,516	
Interest revenue	<u>43,014</u>	
Total		7,545,843
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets. The net assets of the internal service fund are:		1,499,266
An interfund receivable is recorded in governmental activities to reflect underpayments to the internal service fund by the business-type activities.		(24,038)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	(2,330,000)	
Special assessment bonds	(1,132,500)	
Bond Anticipation Note	(1,900,000)	
OPWC loan	(292,531)	
OWDA loans	(1,116,249)	
Compensated absences	(1,228,133)	
Accrued interest payable	<u>\$ (14,915)</u>	
Total		<u>(8,014,328)</u>
<b>Net assets of governmental activities</b>		<u><u>\$ 79,547,215</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**FINANCIAL CONDITION  
DEFIANCE COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006

	General	Mental Retardation and Developmental Disabilities	Job and Family Services	Motor Vehicle and Gas Tax
<b>Revenues:</b>				
Property taxes . . . . .	\$ 1,815,531	\$ 2,010,304		
Sales taxes . . . . .	4,537,722			
Special assessments . . . . .				
Charges for services . . . . .	1,506,301	128,523		\$ 520
Licenses and permits . . . . .	2,943			
Fines and forfeitures . . . . .	58,373			30,822
Intergovernmental . . . . .	1,208,010	2,148,728	\$ 2,816,235	4,037,126
Investment income . . . . .	2,327,910			36,363
Other . . . . .	61,135	122,683	157,950	177,848
Total revenues . . . . .	<u>11,517,925</u>	<u>4,410,238</u>	<u>2,974,185</u>	<u>4,282,679</u>
<b>Expenditures:</b>				
Current:				
General government:				
Legislative and executive . . . . .	3,037,045			
Judicial . . . . .	1,223,291			
Public safety . . . . .	1,971,265			
Public works . . . . .	242,035			4,172,399
Health . . . . .	36,243	3,862,034		
Human services . . . . .	305,384		3,130,135	
Economic development . . . . .				
Other . . . . .	1,240,851			
Capital outlay . . . . .				
Debt service:				
Principal retirement . . . . .				
Interest and fiscal charges . . . . .	269,691			29,087
Total expenditures . . . . .	<u>8,325,805</u>	<u>3,862,034</u>	<u>3,130,135</u>	<u>4,201,486</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>3,192,120</u>	<u>548,204</u>	<u>(155,950)</u>	<u>81,193</u>
<b>Other financing sources (uses):</b>				
Premium on issuance of notes . . . . .				
Issuance of notes . . . . .				400,000
Issuance OWDA loans . . . . .				
Transfers in . . . . .			129,708	9,999
Transfers out . . . . .	(4,226,076)			
Total other financing sources (uses) . . . . .	<u>(4,226,076)</u>		<u>129,708</u>	<u>409,999</u>
Net change in fund balances . . . . .	(1,033,956)	548,204	(26,242)	491,192
<b>Fund balances at beginning of year . . . . .</b>	<u>10,079,870</u>	<u>2,215,941</u>	<u>217,473</u>	<u>399,775</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 9,045,914</u>	<u>\$ 2,764,145</u>	<u>\$ 191,231</u>	<u>\$ 890,967</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<b>Emergency 911</b>	<b>Senior Center</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 731,916	\$ 671,380	\$ 100,000	\$ 5,329,131
			4,537,722
		562,293	562,293
		2,013,513	3,648,857
			2,943
		9,793	98,988
112,908	432,250	5,675,698	16,430,955
		45,319	2,409,592
2,974	19,572	1,450,345	1,992,507
<u>847,798</u>	<u>1,123,202</u>	<u>9,856,961</u>	<u>35,012,988</u>
		564,496	3,601,541
		227,150	1,450,441
697,288		1,646,802	4,315,355
		114,145	4,528,579
		101,176	3,999,453
	1,192,688	1,667,418	6,295,625
		776,365	776,365
		44,288	1,285,139
		6,332,101	6,332,101
		245,698	245,698
		299,274	598,052
<u>697,288</u>	<u>1,192,688</u>	<u>12,018,913</u>	<u>33,428,349</u>
150,510	(69,486)	(2,161,952)	1,584,639
		14	14
		1,500,000	1,900,000
		259,260	259,260
		4,976,562	5,116,269
		(1,490,193)	(5,716,269)
		<u>5,245,643</u>	<u>1,559,274</u>
150,510	(69,486)	3,083,691	3,143,913
231,610	722,343	7,187,557	21,054,569
<u>\$ 382,120</u>	<u>\$ 652,857</u>	<u>\$ 10,271,248</u>	<u>\$ 24,198,482</u>

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>Net change in fund balances - total governmental funds</b>	<b>\$</b>	<b>3,143,913</b>
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation expense in the current period:		
Capital outlay	\$ 5,508,518	
Depreciation expense	<u>(1,761,267)</u>	3,747,251
The effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.		
		(107,666)
Issuance of loans and notes are other financing sources in the governmental funds, but they increase long-term liabilities on the statement of net assets:		
OWDA loans	(259,260)	
Bond Anticipation Notes	<u>(1,900,000)</u>	(2,159,260)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Property taxes	1,839	
Sales taxes	8,295	
Intergovernmental	12,606	
Special assessments	(44,779)	
Interest	(42,334)	
Charges for services	(55,535)	
Other	<u>(45,181)</u>	(165,089)
Principal payments are expenditures in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets:		
General obligation bonds	115,000	
Special assessment bonds	46,000	
Loans payable	<u>84,698</u>	245,698
In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due.		
		4,579
Some expenses reported in the statement of activities do not use require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:		
Compensated absences		(234,307)
The internal service fund used by management to charge the cost of insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund (less the \$35,913 internal activity) is allocated among the governmental activities.		
		<u>974,797</u>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>5,449,916</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Property taxes . . . . .	\$ 1,512,000	\$ 1,817,668	\$ 1,817,693	\$ 25
Sales taxes . . . . .	3,300,000	4,553,974	4,553,974	
Charges for services . . . . .	975,400	1,496,902	1,485,592	(11,310)
Licenses and permits . . . . .	2,900	2,868	2,943	75
Fines and forfeitures . . . . .	46,100	62,223	62,140	(83)
Intergovernmental . . . . .	1,028,426	1,196,693	1,213,051	16,358
Investment income . . . . .	900,000	2,383,926	2,422,688	38,762
Other . . . . .	171,852	837,007	55,127	(781,880)
<b>Total revenues.</b> . . . .	<u>7,936,678</u>	<u>12,351,261</u>	<u>11,613,208</u>	<u>(738,053)</u>
<b>Expenditures:</b>				
Current:				
General government:				
Legislative and executive . . . . .	3,222,324	3,308,892	3,143,314	165,578
Judicial . . . . .	1,278,839	1,297,474	1,259,929	37,545
Public safety . . . . .	2,449,682	2,484,706	1,995,941	488,765
Public works . . . . .	721,480	707,980	254,951	453,029
Health . . . . .	79,493	79,493	37,668	41,825
Human services . . . . .	521,380	321,381	308,959	12,422
Other . . . . .	3,963,357	2,433,378	1,450,352	983,026
<b>Total expenditures</b> . . . . .	<u>12,236,555</u>	<u>10,633,304</u>	<u>8,451,114</u>	<u>2,182,190</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>(4,299,877)</u>	<u>1,717,957</u>	<u>3,162,094</u>	<u>1,444,137</u>
<b>Other financing sources (uses):</b>				
Advances in . . . . .		1,821,685	1,824,760	3,075
Advances out . . . . .		(1,147,924)	(1,297,924)	(150,000)
Transfers out . . . . .		(4,409,554)	(4,151,076)	258,478
Sale of capital assets . . . . .	10,000			
Contingencies . . . . .	(2,666,969)	(4,939,010)		4,939,010
<b>Total other financing sources (uses)</b> . . . . .	<u>(2,656,969)</u>	<u>(8,674,803)</u>	<u>(3,624,240)</u>	<u>5,050,563</u>
<b>Net change in fund balance.</b> . . . . .	<u>(6,956,846)</u>	<u>(6,956,846)</u>	<u>(462,146)</u>	<u>6,494,700</u>
<b>Fund balance at beginning of year</b> . . . . .	6,759,896	6,759,896	6,759,896	
<b>Prior year encumbrances appropriated</b> . . . . .	<u>196,950</u>	<u>196,950</u>	<u>196,950</u>	
<b>Fund balance at end of year</b> . . . . .			<u>\$ 6,494,700</u>	<u>\$ 6,494,700</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Property taxes . . . . .	\$ 2,250,000	\$ 2,250,000	\$ 2,008,465	\$ (241,535)
Intergovernmental . . . . .	1,607,072	1,574,233	2,148,729	574,496
Other . . . . .	350,200	350,200	251,206	(98,994)
<b>Total revenues . . . . .</b>	<b><u>4,207,272</u></b>	<b><u>4,174,433</u></b>	<b><u>4,408,400</u></b>	<b><u>233,967</u></b>
<b>Expenditures:</b>				
Current:				
Health . . . . .	4,900,568	4,911,623	4,118,705	792,918
Net change in fund balance. . . . .	(693,296)	(737,190)	289,695	1,026,885
<b>Fund balance at beginning of year . . . . .</b>	<b>2,147,079</b>	<b>2,147,079</b>	<b>2,147,079</b>	
<b>Prior year encumbrances appropriated . . . . .</b>	<b>35,272</b>	<b>35,272</b>	<b>35,272</b>	
<b>Fund balance at end of year . . . . .</b>	<b><u>\$ 1,489,055</u></b>	<b><u>\$ 1,445,161</u></b>	<b><u>\$ 2,472,046</u></b>	<b><u>\$ 1,026,885</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
JOB AND FAMILY SERVICES FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Intergovernmental . . . . .	\$ 4,253,959	\$ 2,787,846	\$ 2,612,113	\$ (175,733)
Other . . . . .	629,896	255,761	157,950	(97,811)
<b>Total revenues . . . . .</b>	<b>4,883,855</b>	<b>3,043,607</b>	<b>2,770,063</b>	<b>(273,544)</b>
<b>Expenditures:</b>				
Current:				
Human services . . . . .	5,292,562	3,446,147	3,121,193	324,954
Excess (deficiency) of revenues over (under) expenditures . . . . .	(408,707)	(402,540)	(351,130)	51,410
<b>Other financing sources:</b>				
Transfers in. . . . .	135,875	129,708	129,708	
Net change in fund balance. . . . .	(272,832)	(272,832)	(221,422)	51,410
<b>Fund balance at beginning of year . . . . .</b>	<b>223,927</b>	<b>223,927</b>	<b>223,927</b>	
<b>Prior year encumbrances appropriated . . . . .</b>	<b>48,905</b>	<b>48,905</b>	<b>48,905</b>	
<b>Fund balance at end of year . . . . .</b>			<b>\$ 51,410</b>	<b>\$ 51,410</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
MOTOR VEHICLE AND GAS TAX FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Charges for services . . . . .	\$ 1,000	\$ 751	\$ 789	\$ 38
Fines and forfeitures . . . . .	10,000	30,999	30,999	
Intergovernmental . . . . .	4,215,000	4,085,108	4,211,712	126,604
Investment income . . . . .	12,000	36,363	36,363	
Other . . . . .	13,000	164,705	193,166	28,461
<b>Total revenues . . . . .</b>	<b>4,251,000</b>	<b>4,317,926</b>	<b>4,473,029</b>	<b>155,103</b>
<b>Expenditures:</b>				
Current:				
Public works . . . . .	4,479,749	4,458,906	4,285,221	173,685
Debt service:				
Principal retirement . . . . .	785,000	750,000	750,000	
Interest and fiscal charges . . . . .		27,769	27,769	
<b>Total expenditures . . . . .</b>	<b>5,264,749</b>	<b>5,236,675</b>	<b>5,062,990</b>	<b>173,685</b>
Excess (deficiency) of revenues over (under) expenditures . . . . .	(1,013,749)	(918,749)	(589,961)	328,788
<b>Other financing sources:</b>				
Issuance of notes . . . . .	450,000	400,000	400,000	
Transfers in . . . . .	54,999	9,999	9,999	
<b>Total other financing sources . . . . .</b>	<b>504,999</b>	<b>409,999</b>	<b>409,999</b>	
Net change in fund balance . . . . .	(508,750)	(508,750)	(179,962)	328,788
<b>Fund balance at beginning of year . . . . .</b>	<b>378,988</b>	<b>378,988</b>	<b>378,988</b>	
<b>Prior year encumbrances appropriated . . . . .</b>	<b>129,762</b>	<b>129,762</b>	<b>129,762</b>	
<b>Fund balance at end of year . . . . .</b>			<b>\$ 328,788</b>	<b>\$ 328,788</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
EMERGENCY 911 FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Property taxes . . . . .	\$ 750,000	\$ 732,729	\$ 732,729	
Intergovernmental . . . . .	70,000	112,908	112,908	
Other . . . . .		2,650	2,650	
<b>Total revenues . . . . .</b>	<u>820,000</u>	<u>848,287</u>	<u>848,287</u>	
<b>Expenditures:</b>				
Current:				
Public safety . . . . .	1,026,344	1,054,631	706,021	\$ 348,610
<b>Net change in fund balance . . . . .</b>	(206,344)	(206,344)	142,266	348,610
<b>Fund balance at beginning of year . . . . .</b>	202,742	202,742	202,742	
<b>Prior year encumbrances appropriated . . . . .</b>	<u>3,602</u>	<u>3,602</u>	<u>3,602</u>	
<b>Fund balance at end of year . . . . .</b>	<u><u>          </u></u>	<u><u>          </u></u>	<u><u>\$ 348,610</u></u>	<u><u>\$ 348,610</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
SENIOR CENTER FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Property taxes . . . . .	\$ 790,000	\$ 671,982	\$ 671,982	
Intergovernmental . . . . .	427,520	458,347	458,347	
Other . . . . .	13,000	19,225	19,571	\$ 346
<b>Total revenues . . . . .</b>	<u>1,230,520</u>	<u>1,149,554</u>	<u>1,149,900</u>	<u>346</u>
<b>Expenditures:</b>				
Current:				
Human services . . . . .	1,909,609	1,828,643	1,225,365	603,278
Net change in fund balance. . . . .	(679,089)	(679,089)	(75,465)	603,624
<b>Fund balance at beginning of year . . . . .</b>	623,481	623,481	623,481	
<b>Prior year encumbrances appropriated . . . . .</b>	55,608	55,608	55,608	
<b>Fund balance at end of year . . . . .</b>	<u><u>623,481</u></u>	<u><u>623,481</u></u>	<u><u>\$ 603,624</u></u>	<u><u>\$ 603,624</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2006**

	<b>Business-Type Activities - Enterprise Funds</b>			<b>Governmental Activity - Internal Service Fund</b>
	<b>Landfill</b>	<b>Sewer</b>	<b>Total</b>	
<b>Assets:</b>				
Current assets:				
Equity in pooled cash and cash equivalents. . . . .	\$ 9,243,566	\$ 570,288	\$ 9,813,854	\$ 1,545,316
Cash and in segregated accounts . . . . .	225	100	325	
Receivables (net of allowance for uncollectibles):				
Accounts . . . . .	425,281	81,539	506,820	
Prepayments. . . . .	86,208	4,163	90,371	
Materials and supplies inventory . . . . .	3,474	1,169	4,643	
<b>Total current assets . . . . .</b>	<b>9,758,754</b>	<b>657,259</b>	<b>10,416,013</b>	<b>1,545,316</b>
Noncurrent assets:				
Restricted assets:				
Equity in pooled cash and cash equivalents. . . . .	337,561		337,561	
Investments . . . . .	4,148,756		4,148,756	
Accrued interest receivable . . . . .	16,818		16,818	
Capital assets:				
Land and construction in progress . . . . .	991,731	794,708	1,786,439	
Depreciable capital assets, net . . . . .	1,111,403	4,730,628	5,842,031	
<b>Total noncurrent assets . . . . .</b>	<b>6,606,269</b>	<b>5,525,336</b>	<b>12,131,605</b>	
<b>Total assets . . . . .</b>	<b>16,365,023</b>	<b>6,182,595</b>	<b>22,547,618</b>	<b>1,545,316</b>
<b>Liabilities:</b>				
Current liabilities:				
Accounts payable. . . . .	64,879	4,439	69,318	
Accrued wages and benefits . . . . .	6,185	1,958	8,143	
Compensated absences payable. . . . .	18,793	6,248	25,041	
Due to other governments . . . . .	49,624	36,898	86,522	
Interfund payable. . . . .		15,252	15,252	
Accrued interest payable. . . . .		1,172	1,172	
Claims payable . . . . .				46,050
General obligation bonds payable . . . . .		10,000	10,000	
Revenue bonds payable . . . . .		600	600	
Capmark commercial mortgage payable. . . . .		4,000	4,000	
<b>Total current liabilities . . . . .</b>	<b>139,481</b>	<b>80,567</b>	<b>220,048</b>	<b>46,050</b>
Long-term liabilities:				
Liabilities payable from restricted assets:				
Closure and postclosure payable . . . . .	3,160,085		3,160,085	
General obligation bonds payable . . . . .		25,000	25,000	
Revenue bonds payable . . . . .		59,400	59,400	
Capmark commercial mortgage payable. . . . .		82,000	82,000	
Compensated absences payable . . . . .	65,391	5,087	70,478	
<b>Total long-term liabilities. . . . .</b>	<b>3,225,476</b>	<b>171,487</b>	<b>3,396,963</b>	
<b>Total liabilities . . . . .</b>	<b>3,364,957</b>	<b>252,054</b>	<b>3,617,011</b>	<b>46,050</b>
<b>Net assets:</b>				
Invested in capital assets, net of related debt. . . . .	2,103,134	5,344,336	7,447,470	
Restricted for closure and postclosure . . . . .	1,343,050		1,343,050	
Unrestricted . . . . .	9,553,882	586,205	10,140,087	1,499,266
<b>Total net assets . . . . .</b>	<b>\$ 13,000,066</b>	<b>\$ 5,930,541</b>	<b>\$ 18,930,607</b>	<b>\$ 1,499,266</b>

Net assets reported for business-type activities on the statement of net assets is different because it includes a proportionate share of the balance of the internal service fund.

	24,038
Net assets of business-type activities.	\$ 18,954,645

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental Activity - Internal Service Fund
	<u>Landfill</u>	<u>Sewer</u>	<u>Total</u>	
<b>Operating revenues:</b>				
Charges for services . . . . .	\$ 3,254,386	\$ 512,778	\$ 3,767,164	\$ 2,000,058
Other . . . . .	17,708	3,369	21,077	
Total operating revenues . . . . .	<u>3,272,094</u>	<u>516,147</u>	<u>3,788,241</u>	<u>2,000,058</u>
<b>Operating expenses:</b>				
Personal services . . . . .	1,044,332	122,497	1,166,829	
Contractual services . . . . .	741,142	71,767	812,909	
Materials and supplies . . . . .	143,544	3,152	146,696	
Other . . . . .	297,328		297,328	
Claims . . . . .				1,589,348
Closure and postclosure costs . . . . .	382,503		382,503	
Depreciation . . . . .	225,429	100,613	326,042	
Total operating expenses . . . . .	<u>2,834,278</u>	<u>298,029</u>	<u>3,132,307</u>	<u>1,589,348</u>
Operating income . . . . .	<u>437,816</u>	<u>218,118</u>	<u>655,934</u>	<u>410,710</u>
<b>Nonoperating revenues (expenses):</b>				
Intergovernmental . . . . .		110,344	110,344	
Interest revenue . . . . .	174,783		174,783	
Other non-operating revenue . . . . .				
Interest expense and fiscal charges . . . . .		(9,505)	(9,505)	
Total nonoperating revenues . . . . .	<u>174,783</u>	<u>100,839</u>	<u>275,622</u>	
Net income before transfers . . . . .	612,599	318,957	931,556	410,710
Transfers in . . . . .				600,000
Change in net assets . . . . .	612,599	318,957	931,556	1,010,710
<b>Net assets at beginning of year . . . . .</b>	<u>12,387,467</u>	<u>5,611,584</u>		<u>488,556</u>
<b>Net assets at end of year . . . . .</b>	<u>\$ 13,000,066</u>	<u>\$ 5,930,541</u>		<u>\$ 1,499,266</u>

The change in net assets reported for business-type activities on the statement of activities is different because it includes a proportionate share of the net income of the internal service fund.

	<u>35,913</u>
Change in net assets of business-type activities.	<u>\$ 967,469</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Business-Type Activities - Enterprise Funds</b>			<b>Governmental Activity - Internal Service Fund</b>
	<b>Landfill</b>	<b>Sewer</b>	<b>Total</b>	
<b>Cash flows from operating activities:</b>				
Cash received from sales/service charges . . . . .	\$ 3,101,566	\$ 499,966	\$ 3,601,532	\$ 2,000,058
Cash received from other operating revenue . . . . .	17,933	3,369	21,302	
Cash payments for personal services . . . . .	(1,026,376)	(120,466)	(1,146,842)	
Cash payments for contractual services . . . . .	(759,128)	(46,603)	(805,731)	
Cash payments for materials and supplies . . . . .	(119,120)	(1,233)	(120,353)	
Cash payments for claims . . . . .				(1,636,112)
Cash payments for other expenses. . . . .	(333,825)	(6,615)	(340,440)	
Net cash provided by operating activities . . . . .	<u>881,050</u>	<u>328,418</u>	<u>1,209,468</u>	<u>363,946</u>
<b>Cash flows from noncapital financing activities:</b>				
Cash used in repayment of interfund loans. . . . .		(426,325)	(426,325)	
Cash received from transfers in . . . . .				600,000
Net cash provided by (used in) noncapital financing activities . . . . .		<u>(426,325)</u>	<u>(426,325)</u>	<u>600,000</u>
<b>Cash flows from capital and related financing activities:</b>				
Cash received from capital grants. . . . .		110,444	110,444	
Acquisition of capital assets . . . . .	(18,270)	(383,204)	(401,474)	
Principal payments on bonds. . . . .		(10,000)	(10,000)	
Interest payments on bonds. . . . .		(4,615)	(4,615)	
Principal payments on commercial mortgage . . . .		(4,000)	(4,000)	
Interest payments on commercial mortgage . . . .		(4,500)	(4,500)	
Net cash used in capital and related financing activities . . . . .	<u>(18,270)</u>	<u>(295,875)</u>	<u>(314,145)</u>	
<b>Cash flows from investing activities:</b>				
Cash received from interest . . . . .	193,935		193,935	
Net cash provided by purchases and maturities of investments. . . . .	4,642,390		4,642,390	
Net cash payments for purchases and maturities of investments. . . . .	<u>(4,632,090)</u>		<u>(4,632,090)</u>	
Net cash provided by investing activities. . . . .	<u>204,235</u>		<u>204,235</u>	
Net increase (decrease) in cash and cash equivalents . . . . .	1,067,015	(393,782)	673,233	963,946
<b>Cash and cash equivalents at beginning of year . . . . .</b>	<u>8,514,337</u>	<u>964,170</u>	<u>9,478,507</u>	<u>581,370</u>
<b>Cash and cash equivalents at end of year. . . . .</b>	<u>\$ 9,581,352</u>	<u>\$ 570,388</u>	<u>\$ 10,151,740</u>	<u>\$ 1,545,316</u>

- - continued

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Business-Type Activities - Enterprise Funds</u>			<b>Governmental Activity - Internal Service Fund</b>
	<u>Landfill</u>	<u>Sewer</u>	<u>Total</u>	<u>Fund</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income. . . . .	\$ 437,816	\$ 218,118	\$ 655,934	\$ 410,710
Adjustments:				
Depreciation . . . . .	225,429	100,613	326,042	
Changes in assets and liabilities:				
(Increase) in accounts receivable . . . . .	(152,820)	(12,812)	(165,632)	
(Increase) decrease in prepayments . . . . .	(50,854)	32	(50,822)	
Decrease in inventories. . . . .	10,867	218	11,085	
Increase (Decrease) in accounts payable . . . . .	2,326	(14,984)	(12,658)	
Increase in accrued wages and benefits . . . . .	608	406	1,014	
Increase in landfill closure and postclosure care liability . . . . .	382,503		382,503	
(Decrease) in claims payable . . . . .				(46,764)
Increase in due to other governments. . . . .	8,570	35,076	43,646	
Increase in compensated absences payable . . . . .	16,605	1,751	18,356	
Net cash provided by operating activities. . . . .	<u>\$ 881,050</u>	<u>\$ 328,418</u>	<u>\$ 1,209,468</u>	<u>\$ 363,946</u>

**Non-Cash Investing Activity:**

In 2006, there was an increase in the fair value of investments in the Landfill enterprise fund, in the amount of \$19,897.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2006

		<u>Agency</u>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . .	\$	6,912,050
Cash in segregated accounts . . . . .		572,943
Receivables:		
Real estate and other taxes . . . . .		29,140,229
Due from other governments . . . . .		2,198,601
Special assessments. . . . .		372,196
Total assets . . . . .	\$	<u>39,196,019</u>
<b>Liabilities:</b>		
Due to other governments. . . . .	\$	30,909,673
Undistributed monies . . . . .		7,071,367
Due to other funds . . . . .		1,214,979
Total liabilities . . . . .	\$	<u>39,196,019</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**NOTE 1 - DESCRIPTION OF DEFIANCE COUNTY AND THE REPORTING ENTITY**

**A. The County**

Defiance County, Ohio (the "County") was created in 1845. The County is governed by a board of three Commissioners elected by the voters of the County. Other officials elected by the voters of the County that manage various segments of the County's operations are the Auditor, Treasurer, Recorder, a Common Pleas Court Judge, a Juvenile/Probate Court Judge, Engineer, Clerk of Courts, Coroner, Prosecuting Attorney, and Sheriff. Although the elected officials manage the internal operations of their respective departments, the County Commissioners authorize expenditures as well as serve as the budget and taxing authority, contracting body, and chief administrators of public services for the entire County.

**B. Reporting Entity**

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading.

The primary government of the County consists of all funds, departments, boards, and agencies that are not legally separate from the County. For Defiance County, this includes the Board of Mental Retardation and Developmental Disabilities, the Job and Family Services Department, and all departments and activities that are operated directly by the elected County officials.

Component units are legally separate organizations for which the County is financially accountable. The County is financially accountable for an organization if the County appoints a voting majority of the organization's governing board and (1) the County is able to significantly influence the programs or services performed or provided by the organization; or (2) the County is legally entitled to or can otherwise access the organization's resources; (3) the County is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the County is obligated for the debt of the organization. Component units may also include organizations for which the County approves the budget, the issuance of debt, or the levying of taxes. The County does not have any component units.

The County participates in eight jointly governed organizations, the Northwest Ohio Juvenile Detention, Training, and Rehabilitation Center; Four County Board of Alcohol, Drug Addiction, and Mental Health Services; Corrections Commission of Northwest Ohio; Four County Solid Waste District; Multi-Area Narcotics Task Force; Quadco Rehabilitation Center; Maumee Valley Planning Organization; and the Community Improvement Corporation of Defiance County (See Note 19).

The County participates in two insurance pools, the County Commissioners Association Service Corporation and the Northern Buckeye Education Council Employee Insurance Benefits Program (See Note 20).

The County is associated with one related organization, the Defiance County Regional Airport Authority (See Note 21).

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Defiance County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The County also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise funds provided they do not conflict with or contradict GASB pronouncements. The County has elected not to apply FASB Statements and Interpretations issued after November 30, 1989, to its business-type activities and enterprise funds. Following are the more significant of the County's accounting policies.

**A. Basis of Presentation**

The County's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

*Government-Wide Financial Statements*

The statement of net assets and the statement of activities display information about the County as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the County that are governmental in nature and those that are considered business-type activities. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental and business-type activities of the County at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the County's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the County, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the County.

***Fund Financial Statements*** - During the year, the County segregates transactions related to certain County functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the County at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the proprietary fund financial statements. Fiduciary funds are reported by type.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**B. Fund Accounting**

The County uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the County are reported in three categories: governmental, proprietary, and fiduciary.

***Governmental Funds*** - Governmental funds are those through which most governmental functions of the County are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the County's major governmental funds:

*General Fund* - The General Fund accounts for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the County for any purpose provided it is expended or transferred according to the general laws of Ohio.

*Mental Retardation and Developmental Disabilities Fund* - This fund accounts for state monies and tax levy monies used to support Good Samaritan School and help the mentally disabled within the County in a residential and group home environment. It also provides aid to families who have mentally disabled family members with challenges such as providing handicap accessibility and associated programs.

*Job and Family Services Fund* - This fund accounts for various federal, state, and local revenues as well as transfers from the General Fund used to provide general relief and to pay providers of medical assistance and social services.

*Motor Vehicle and Gas Tax Fund* - This fund accounts for revenues derived from the sale of motor vehicle licenses, gasoline taxes, and interest which are restricted by State law to county road and bridge repair/improvement programs. This fund also accounts for court fines collected for the county engineer for road and bridge improvements.

*Emergency 911 Fund* - This fund accounts for tax levy monies used for the operation and maintenance of the County's 911 system.

*Senior Center Fund* - This fund accounts for tax levy monies, donations, federal, state and local monies used for senior citizen programs.

Other governmental funds of the County are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities; (b) for the accumulation of resources for, and the repayment of, general long-term debt principal, interest and related costs and (c) for grants and other resources, the use of which is restricted to a particular purpose.

***Proprietary Funds*** - Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**Enterprise Funds** - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the County's major enterprise funds:

Landfill Fund - This fund accounts for operations of the landfill.

Sewer Fund - This fund accounts for the provision of wastewater treatment services to residential and commercial users within the County.

**Internal Service Fund** - The internal service fund accounts for the financing of services provided by one department to other departments of the County on a cost reimbursement basis. The County's internal service fund accounts for the activities of the self insurance program for employee health care benefits.

**Fiduciary Funds** - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the County under a trust agreement for individuals, private organizations, or other governments and are not available to support the County's own programs. The County did not have any trust funds in 2006. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The County's agency funds account for assets held by the County for political subdivisions in which the County acts as fiscal agent and for taxes, state-levied shared revenues, and fines and forfeitures collected and distributed to other political subdivisions.

**C. Measurement Focus**

**Government-Wide Financial Statements** - The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the County are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

**Fund Financial Statements** - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the proprietary funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of revenues, expenses, and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the County finances and meets the cash flow needs of its proprietary activities.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; proprietary funds and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**Revenues - Exchange and Nonexchange Transactions** - Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the County, available means expected to be received within thirty-one days after year end.

Nonexchange transactions, in which the County receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from sales taxes is recognized in the year in which the sales are made. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the County must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the County on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: sales taxes, charges for services, fines and forfeitures, state-levied locally shared taxes (including gasoline tax and motor vehicle license tax), grants, and interest.

**Deferred Revenues** - Deferred revenues arise when assets are recognized before the revenue recognition criteria have been satisfied.

Property taxes for which there was an enforceable legal claim at December 31, 2006, but were levied to finance 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

On governmental fund financial statements, receivables that were not collected within the available period are recorded as deferred revenue.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

***Expenses/Expenditures*** - On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**E. Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. Budgetary information for the juvenile probation accounts and an account held for a child in custodial care are not reported in the General Fund or the Job and Family Services special revenue fund because they are not included in the entity for which the “appropriated budget” is adopted. The major documents prepared are the certificate of estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources establishes a limit on the amount the County Commissioners may appropriate. The appropriations resolution is the County Commissioners' authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the County Commissioners. The legal level of control has been established by the County Commissioners at the fund, program, department, and object level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the County Auditor. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the County Commissioners.

The appropriations resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the County Commissioners during the year.

**F. Cash and Investments**

To improve cash management, cash received by the County is pooled and invested. Individual fund integrity is maintained through County records. Interest in the pool is presented as “Equity in Pooled Cash and Cash Equivalents”.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Cash and cash equivalents that are held separately within departments of the County, and not included in the county treasury, are recorded as "Cash and Cash Equivalents in Segregated Accounts". Cash and cash equivalents that are held by a trustee for the payment of bonds and coupons are recorded as "Cash and Cash Equivalents with Fiscal Agent".

During 2006, the County invested in nonnegotiable certificates of deposit, federal agency securities, U.S. Treasury notes, and the State Treasury Asset Reserve of Ohio (STAR Ohio). Investments are reported at fair value, except for nonnegotiable certificates of deposit and repurchase agreements, which are reported at cost. Fair value is based on quoted market prices. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2006.

Interest earnings are allocated to County funds according to State statutes, grant requirements, or debt related restrictions. Interest revenue credited to the General Fund during 2006 was \$2,327,910 which includes \$1,957,135 assigned from other County funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2006, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

**H. Inventory**

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of expendable supplies held for consumption.

**I. Loans Receivable**

Loans receivable represent the right to receive repayment for certain loans made by the County. These loans are based upon written agreements between the County and the various loan recipients. Reported loans receivable is offset by a fund balance reserve in the governmental fund types for the long-term portion not expected to be collected in the subsequent year. This indicates that it does not constitute available expendable resources even though it is a component of current net assets.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**J. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets in the Landfill Fund represent amounts required by the EPA to be set-aside for closure and postclosure costs.

**K. Capital Assets**

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column on the government-wide statement of net assets, but are not reported on the fund financial statements. Capital assets used by the proprietary funds are reported in both the business-type activities column on the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The County maintains a capitalization threshold of five thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

All capital assets are depreciated, except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the County's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Buildings	50 - 150 years	50 years
Roads and Bridges	15 - 100 years	N/A
Machinery and equipment	5 - 20 years	5 - 20 years
Vehicles	8 - 15 years	8 - 15 years
Sewer Lines	N/A	50 years

**L. Interfund Receivables/Payables**

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "Interfund Loans Receivable/Payable" and "Due to/from other funds", respectively. Interfund balances are eliminated on the statement of net assets, except for any net residual amounts due between governmental and business-type activities. These amounts are presented as "Internal Balances".

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**M. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the County will compensate the employees for the benefits through paid time off or some other means. The County records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the County has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year end taking into consideration any limits specified in the County's union contracts or departmental personnel policies. The County records a liability for accumulated unused sick leave for any employee with ten years of service with the County.

**N. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences and contractually required pension contributions that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. General obligation bonds, special assessment bonds, various loans, and capital leases are recognized as liabilities on the fund financial statements when due.

**O. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The County's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**P. Fund Balance Reserves and Designations**

The County reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Fund balance reserves have been established for encumbrances, prepayments, materials and supplies inventory, interfund loans, loans receivable, unclaimed monies, and debt service.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

A designation of fund balance represents a self-imposed limitation on the use of available expendable resources by the County. The designation for retirement represents monies set aside by the County for the future payment of termination benefits.

**Q. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the County, these revenues are charges for services for landfill and sewer services, as well as charges for health insurance in the internal service fund. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating.

**R. Capital Contributions**

Capital contributions on the proprietary fund financial statements arise from contributions from governmental activities, from outside contributions of capital assets, from grants, or from outside contributions of resources restricted to capital acquisition and construction.

**S. Interfund Transactions**

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**T. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. Neither one of these types of events occurred during 2006.

**U. Estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principles**

For fiscal year 2006, the County has implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the County as previously reported at December 31, 2005.

**B. Deficit Fund Balances**

Major Funds

Nonmajor Governmental Funds

Elliot Road W&S capital projects fund	\$ 16,466
County East Side Camp capital projects fund	1,409,195
Auglaize Sewer capital projects fund	65,224
Airport capital projects fund	106,441
Canoe Landings capital projects fund	19,816
Dowe Ditch capital projects fund	28,628
Highland Ditch capital projects fund	73,530
Peterson Ditch capital projects fund	48,582
Carryall Ditch capital projects fund	38,212
Hardy Tile debt service fund	9,146
Auglaize Sewer debt service fund	239,482
Airport Hanger debt service fund	89,080
Concealed Weapon special revenue fund	957

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The deficit fund balances resulted from reporting notes payable and advances from other funds and other accrued liabilities as a fund liability. These deficits will be alleviated when sufficient revenues are received to retire the notes and repay the advances.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - for the General Fund, Mental Retardation and Development Disabilities, Job and Family Services, Motor Vehicle and Gas Tax, Emergency 911, and Senior Center special revenue funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding year end encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

Adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis are as follows:

	Change in Fund Balance					
	<u>General</u>	Mental Retardation and Developmental <u>Disabilities</u>	Job and Family <u>Services</u>	Motor Vehicle and <u>Gas Tax</u>	Emergency <u>911</u>	Senior <u>Center</u>
Budget basis	\$ (462,146)	\$ 289,695	\$ (221,422)	\$ (179,962)	\$ 142,266	\$ (75,465)
Net adjustment for revenue accruals	(95,283)	1,838	204,122	(190,350)	(489)	(26,698)
Net adjustment for expenditure accruals	15,003	225,518	(23,594)	787,881	(671)	8,206
Net adjustment for other sources/(uses)	(601,836)					
Adjustment for encumbrances	<u>110,306</u>	<u>31,153</u>	<u>14,652</u>	<u>73,623</u>	<u>9,404</u>	<u>24,471</u>
GAAP basis	<u>\$ (1,033,956)</u>	<u>\$ 548,204</u>	<u>\$ (26,242)</u>	<u>\$ 491,192</u>	<u>\$ 150,510</u>	<u>\$ (69,486)</u>

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 5 - DEPOSITS AND INVESTMENTS**

Monies held by the County are classified by State statute into two categories. Active monies are public monies determined to be necessary to meet current demand upon the County treasury. Active monies must be maintained either as cash in the County treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Monies held by the County which are not considered active are classified as inactive. Inactive monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool State Treasury Asset Reserve of Ohio (STAR Ohio);
8. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
9. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 5 - DEPOSITS AND INVESTMENTS – (Continued)**

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the County, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Cash on Hand**

At year-end, the County had \$117,970 in undeposited cash on hand which is included on the financial statements of the County as part of "Equity in Pooled Cash and Cash Equivalents."

**B. Cash With Fiscal Agent**

At year-end, the County had \$2,161 in cash deposited with a fiscal agent in a bond and coupon account. This amount is not included in the amount of deposits with financial institutions below.

**C. Cash in Segregated Accounts**

At year-end, the County's carrying amount of deposits included \$719,669 in cash and cash equivalents deposited separate from the County's internal investment pool. The amount included in the amount of deposits with financial institutions below is \$938,997.

**D. Deposits with Financial Institutions**

At December 31, 2006, the carrying amount of all County deposits, including cash in segregated accounts, was \$38,523,959. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2006, \$38,034,697 of the County's bank balance of \$40,244,126 was exposed to custodial risk as discussed below, while \$2,209,429 was covered by Federal Deposit Insurance Corporation.

The County has no deposit policy for custodial risk beyond the requirements of State statute. Custodial credit risk is the risk that, in the event of bank failure, the County's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the County.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 5 - DEPOSITS AND INVESTMENTS – (Continued)**

**E. Investments**

As of December 31, 2006, the County had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>6 months or less</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
FHLB	\$ 599,880	\$ 100,222		\$ 199,963	\$ 299,732
FHLB - CL	1,999,440			1,000,330	999,110
FHLMC - DN	199,682	199,682			
FHLMC - CL	1,996,760		\$ 1,996,760		
FNMA	199,194	199,194			
Treasury Note	100,000				100,000
STAR Ohio	2,337,561	2,337,561			
	<u>\$ 7,432,517</u>	<u>\$ 2,836,659</u>	<u>\$ 1,996,760</u>	<u>\$ 1,200,293</u>	<u>\$ 1,398,842</u>

The weighted average maturity of investments is 1.26 years.

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the County's investment policy limits investment portfolio maturities to five years or less. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the County and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2% and be marked to market daily.

*Credit Risk:* The County's investments in Federal agency securities and U.S. Treasury notes were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating. The County has no investment policy dealing with investment credit risk beyond the requirements in state.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes, and the Federal Home Loan Bank Notes are exposed to custodial credit risk in that they are uninsured and unregistered. The County has no investment policy dealing with investments custodial risk beyond the requirement in state statute that prohibits payments for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 5 - DEPOSITS AND INVESTMENTS – (Continued)**

*Concentration of Credit Risk:* The County places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the County at December 31, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Federal Home Loan Bank	\$ 599,880	8.07
Federal Home Loan Bank - CL	1,999,440	26.90
Federal Home Loan Mortgage Corp - DN	199,682	2.69
Federal Home Loan Mortgage Corp - CL	1,996,760	26.87
Federal National Mortgage Association	199,194	2.68
Treasury Note	100,000	1.34
STAR Ohio	<u>2,337,561</u>	<u>31.45</u>
	<u>\$ 7,432,517</u>	<u>100.00</u>

**F. Reconciliation of Cash and Investment to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of December 31, 2006.

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 38,523,959
Investments	7,432,517
Cash with fiscal agent	2,161
Cash on hand	<u>117,970</u>
Total	<u>\$ 46,076,607</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 24,291,118
Business-type activities	14,300,496
Agency funds	<u>7,484,993</u>
Total	<u>\$ 46,076,607</u>

**NOTE 6 - RECEIVABLES**

Receivables at December 31, 2006, consisted of accounts (billings for user charged services); sales taxes; accrued interest; intergovernmental receivables arising from grants, entitlements, and shared revenues; interfund; property taxes; loans; and special assessments. All receivables are considered collectible in full and within one year, except for loans and special assessments. Special assessments, in the amount of \$1,906,307, will not be received within one year.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 6 – RECEIVABLES – (Continued)**

Loans receivable represent low interest loans for housing and development projects granted to eligible County property owners and businesses under the Federal Community Block Grant program. The loans have an annual interest rate of 0 to 8.5 % and are to be repaid over periods ranging from five to ten years. During 2006, principal in the amount of \$111,165 was repaid. Loans outstanding at December 31, 2006, were \$255,137. Loans receivable, in the amount of \$208,828 will not be received within one year.

A summary of the principal items of intergovernmental receivables follows:

**Governmental Activities:**

**Major Funds**

General Fund	
Local government	\$ 441,451
Homestead and rollback	87,000
Indigent defense	13,235
Total general fund	<u>541,686</u>
Mental Retardation and Developmental Disabilities	
Homestead and rollback	<u>90,782</u>
Job and Family Services	
Grants	<u>810,589</u>
Motor Vehicle and Gas Tax	
Reimbursements	1,705
Permissive motor vehicle license	216,256
Motor vehicle license tax	666,987
Gasoline tax	1,215,720
Total motor vehicle and gas tax	<u>2,100,668</u>
Emergency 911	
Homestead and rollback	<u>33,527</u>
Senior Center	
Homestead and rollback	34,838
Grants	64,750
Total senior center	<u>99,588</u>

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 6 – RECEIVABLES – (Continued)**

<u>Nonmajor Funds</u>	
Children services	\$ 114,040
Community development block grant	827,304
Sarah's house	43,663
WIA	425,399
Regional jail	578
Public defender	144
Express sewer	322
JM improvement grant	<u>33,597</u>
Total nonmajor funds	<u>1,445,047</u>
Total governmental activities	<u>\$ 5,121,887</u>
<u>Agency Funds</u>	
Library local government	\$ 744,730
Local government	443,905
Local governmental revenue assistance	167,196
Permissive motor vehicle license	111,068
Motor vehicle license tax	190,478
Gasoline tax	<u>541,224</u>
Total agency funds	<u>\$ 2,198,601</u>

**NOTE 7 - PERMISSIVE SALES AND USE TAX**

In 1987, the County Commissioners, by resolution, imposed a one percent sales tax on all retail sales made in the County, except sales of motor vehicles, and on the storage, use, or consumption of tangible personal property, including motor vehicles not subject to the sales tax. As required by State statute, the County Commissioners established how the sales tax proceeds would be allocated prior to the election. The collection of the sales tax went into effect on January 1, 1988, and the proceeds of the tax were credited entirely to the general fund.

Vendor collections of the tax are paid to the State Treasurer by the twenty-third day of the month following collection. The State Tax Commissioner certifies to the State Auditor the amount of the taxes to be returned to the County. The Tax Commissioner's certification must be made within forty-five days after the end of each month.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 8 - PROPERTY TAXES**

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the County. Real property tax revenues received in 2006 represent the collection of 2005 taxes. Real property taxes received in 2006 were levied after October 1, 2005, on the assessed values as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State statute at 35 % of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in 2006 represent the collection of 2005 taxes. Public utility real and tangible personal property taxes received in 2006 became a lien on December 31, 2004, were levied after October 1, 2005, and are collected with real property taxes. Public utility real property is assessed at 35 % of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in 2006 (other than public utility property) represent the collection of 2006 taxes. Tangible personal property taxes received in 2006 were levied after October 1, 2005, on the true value as of December 31, 2005. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 18.75% for 2006. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the County due to the phasing out of the tax. In calendar years 2006-2010, the County will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The County Treasurer collects property taxes on behalf of all taxing districts within the County. The County Auditor periodically remits to the taxing districts their portion of the taxes collected. The collection and distribution of taxes for all subdivisions within the County, excluding the County itself, is accounted for through agency funds. The amount of the County's tax collections is accounted for within the applicable funds.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2006, and for which there was an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2007 operations.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 8 - PROPERTY TAXES – (Continued)**

On the full accrual basis, collectible delinquent real property taxes have been recorded as a receivable and revenue. On the modified accrual basis, the revenue is deferred.

The full tax rate for all County operations for the year ended December 31, 2006, was \$8.91 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2006 property tax receipts were based are as follows:

<u>Category</u>	<u>Amount</u>
Real Property	\$ 594,418,020
Public Utility Property	54,520,540
Tangible Personal Property	<u>64,694,018</u>
Total Assessed Value	<u>\$ 713,632,578</u>

**NOTE 9 - CAPITAL ASSETS**

A. Capital asset activity for the year ended December 31, 2006, was as follows:

<b>Governmental Activities:</b>	<u>Balance 12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 886,031	<u>                    </u>	<u>                    </u>	\$ 886,031
<i>Capital assets, being depreciated:</i>				
Buildings & improvements	13,513,773	\$ 1,063,875	<u>                    </u>	14,577,648
Roads and bridges	50,744,354	3,303,374	<u>                    </u>	54,047,728
Machinery and equipment	4,907,129	847,620	\$ (388,936)	5,365,813
Vehicles	<u>2,989,715</u>	<u>293,649</u>	<u>(85,535)</u>	<u>3,197,829</u>
Total capital assets, being depreciated	<u>72,154,971</u>	<u>5,508,518</u>	<u>(474,471)</u>	<u>77,189,018</u>
<i>Less: accumulated depreciation:</i>				
Buildings & improvements	(2,067,554)	(229,062)	<u>                    </u>	(2,296,616)
Roads and bridges	(14,708,131)	(1,054,642)	<u>                    </u>	(15,762,773)
Machinery and equipment	(3,835,939)	(247,905)	309,584	(3,774,260)
Vehicles	<u>(1,726,973)</u>	<u>(229,658)</u>	<u>57,221</u>	<u>(1,899,410)</u>
Total accumulated depreciation	<u>(22,338,597)</u>	<u>(1,761,267)</u>	<u>366,805</u>	<u>(23,733,059)</u>
Total capital assets being depreciated, net	<u>49,816,374</u>	<u>3,747,251</u>	<u>(107,666)</u>	<u>53,455,959</u>
Governmental activities capital assets, net	<u>\$ 50,702,405</u>	<u>\$ 3,747,251</u>	<u>\$ (107,666)</u>	<u>\$ 54,341,990</u>

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 9 - CAPITAL ASSETS**

<b><u>Business-Type Activities:</u></b>	Balance <u>12/31/05</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>12/31/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 997,099			\$ 997,099
Construction in progress	<u>2,269,607</u>	<u>\$ 187,704</u>	<u>\$ (1,667,971)</u>	<u>789,340</u>
Total capital assets, not being depreciated	<u>3,266,706</u>	<u>187,704</u>	<u>(1,667,971)</u>	<u>1,786,439</u>
<i>Capital assets, being depreciated:</i>				
Buildings	588,868			588,868
Sewer lines	3,886,971	1,863,471		5,750,442
Machinery and equipment	2,686,173		(8,000)	2,678,173
Vehicles	<u>146,092</u>	<u>18,270</u>		<u>164,362</u>
Total capital assets, being depreciated	<u>7,308,104</u>	<u>1,881,741</u>	<u>(8,000)</u>	<u>9,181,845</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(337,243)	(6,324)		(343,567)
Sewer lines	(1,228,993)	(79,590)		(1,308,583)
Machinery and equipment	(1,377,735)	(222,885)	8,000	(1,592,620)
Vehicles	<u>(77,801)</u>	<u>(17,243)</u>		<u>(95,044)</u>
Total accumulated depreciation	<u>(3,021,772)</u>	<u>(326,042)</u>	<u>8,000</u>	<u>(3,339,814)</u>
Total capital assets, being depreciated net	<u>4,286,332</u>	<u>1,555,699</u>		<u>5,842,031</u>
Business-type activities capital assets, net	<u>\$ 7,553,038</u>	<u>\$ 1,743,403</u>	<u>\$ (1,667,971)</u>	<u>\$ 7,628,470</u>

Depreciation expense was charged to functions/programs of the County as follows:

<b>Governmental activities:</b>	
Legislative and executive	\$ 153,274
Conservation and recreation	5,098
Health	60,454
Human services	158,845
Judicial	4,505
Public safety	136,467
Public works	<u>1,242,624</u>
Total depreciation expense - governmental activities	<u>\$ 1,761,267</u>
<b>Business-type activities:</b>	
Landfill	\$ 225,429
Sewer	<u>100,613</u>
Total depreciation expense - business-type activities	<u>\$ 326,042</u>

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 10 - INTERFUND TRANSACTIONS**

- A. Interfund transfers for the year ended December 31, 2006, consisted of the following, as reported on the fund financial statements:

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor governmental funds	\$ 3,486,369
Jobs and Family Services fund	129,708
Motor vehicle and gas tax fund	9,999
Internal service fund	600,000
Transfers from nonmajor governmental funds to:	
Nonmajor governmental funds	<u>1,490,193</u>
Total	<u><u>\$ 5,716,269</u></u>

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

- B. Due from/to other funds consisted of the following at December 31, 2006, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Job and Family Services	\$ 6,194
General	Nonmajor governmental funds	<u>8,244</u>
		<u><u>\$ 14,438</u></u>

Amounts due from/to other funds represent amounts owed between funds for goods or services provided. The balances resulted from the time lag between the dates that payments between the funds are made.

- C. Interfund loans payable/receivable consisted of the following at December 31, 2006:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$1,653,350
General	Sewer	15,252
Nonmajor governmental fund	Nonmajor governmental funds	<u>64,235</u>
Total		<u><u>\$1,732,837</u></u>

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 10 - INTERFUND TRANSACTIONS – (Continued)**

The interfund loan balances result from resources provided by the receivable fund to the payable fund to provide cash flow resources until anticipated revenues are received. At December 31, 2006, the general fund had an interfund receivable of \$1,668,602.

Other governmental funds had an interfund receivable, in the amount of \$64,235 to provide cash flow resources until the receipt of special assessments in other governmental funds.

The entire balance of interfund receivables is reported as reserve fund balances as they are not expected to be received within one year.

**NOTE 11 - RISK MANAGEMENT**

**A. General Liability**

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County has contracted with the County Risk Sharing Authority (CORSA) for the following coverage.

Property	\$ 58,200,824
Equipment Breakdown	100,000,000
General Liability	1,000,000
Commercial Crime	1,000,000
Excess Liability	7,000,000
Automobile Liability	1,000,000
Law Enforcement Liability	1,000,000
Errors and Omissions Liability	1,000,000

Settled claims have not exceeded this commercial coverage in any of the last three years.

**B. Health Benefits**

The County has established a limited risk management program for employee health care benefits. A third party administrator processes the claims which the County pays. The internal service fund allocates the cost of claims payments by charging a monthly premium to each individual enrolled in the health insurance program. These premiums, along with the premium the County pays for each employee enrolled in the program, are paid into the internal service fund. Claims are paid from the internal service fund.

Under the health insurance program, the internal service fund provides coverage for up to a maximum lifetime benefit of \$2,500,000 per individual. An excess coverage policy covers annual individual claims in excess of \$75,000. Settled claims have not exceeded this commercial coverage in any of the last two years, and there has not been any significant reduction in coverage from the prior year.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 11 - RISK MANAGEMENT – (Continued)**

Claims payable is based on the requirements of Governmental Accounting Standards Board Statement No. 30 "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Claims payable at December 31, 2006 is estimated by a third party administrator at \$46,050. The changes in the claims liability for 2006 and 2005 were:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2006	\$ 92,814	\$ 1,589,348	\$ (1,636,112)	\$ 46,050
2005	232,021	2,119,271	(2,258,478)	92,814

**C. Workers' Compensation**

For 2006, the County participated in the County Commissioners Association Service Corporation (Plan), a workers' compensation insurance purchasing pool. The Plan is intended to achieve lower workers' compensation rates while establishing safer working conditions and environments for the participants. The workers' compensation experience of the participating counties is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. In order to allocate the savings derived by formation of the Plan, and to maximize the number of participants in the Plan, annually the Plan's executive committee calculates the total savings which accrued to the Plan through its formation. This savings is then compared to the overall savings percentage of the Plan. The Plan's executive committee then collects rate contributions from or pays rate equalization rebates to the various participants.

Participation in the Plan is limited to counties that can meet the Plans' selection criteria. The firm of Comp Management, Inc. provides administrative, cost control, and actuarial services to the Plan. Each year, the County pays an enrollment fee to the Plan to cover the costs of administering the program. The County may withdraw from the Plan if written notice is provided sixty days prior to the prescribed application deadline of the Ohio Bureau of Workers' Compensation. However, the participant is not relieved of the obligation to pay any amounts owed to the Plan prior to withdrawal and any participant leaving the Plan allows representatives of the Plan to access loss experience for three years following the last year of participation.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 12 - SIGNIFICANT CONTRACTUAL COMMITMENTS**

The County has outstanding contracts for professional services and construction. The following amounts remain on these contracts as of December 31, 2006:

<u>Vendor</u>	<u>Contract Amount</u>	<u>Amount Paid as of 12/31/06</u>	<u>Outstanding Balance</u>
Sines Excavating	\$ 12,781	\$ (11,663)	\$ 1,118
Mannik and Smith Group, Inc.	758,347	(517,084)	241,263
Meck-Donalds	25,240		25,240
Ward Construction	471,459	(449,987)	21,472
Poggemeyer Design Group	270,920	(141,501)	129,419
Eagon & Associates	83,332	(67,380)	15,952
Anderzack-Pitzen Construction	819,256	(815,959)	3,297
Mel Lanzer	1,211,061	(1,193,309)	17,752
Fitzenriders	313,183	(311,701)	1,482
Rosengarten Construction	126,957	(124,967)	1,990
Aqua Tech	20,026	(15,088)	4,938

**NOTE 13 - PENSION PLANS**

**A. Ohio Public Employees Retirement System**

The County participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642, by calling (614) 222-5601 or (800) 222-7377, or by visiting the OPERS website at [www.opers.org](http://www.opers.org).

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 13 - PENSION PLANS – (Continued)**

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement under the traditional plan, were required to contribute 9.0% of their annual covered salaries. Members participating in the traditional plan that were in law enforcement contributed 10.1% of their annual covered salary. The County's contribution rate for pension benefits for 2006 was 13.7%, except for those plan members in law enforcement and public safety. For those classifications, the County's pension contributions were 16.93% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The County's contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004, were \$1,029,095, \$1,059,394, and \$1,015,169, respectively; 93.6% has been contributed for 2006 and 100% for 2005 and 2004. The unpaid contribution to fund pension obligations for 2006, in the amount of \$64,841, is recorded as a liability.

**B. State Teachers Retirement System of Ohio**

Certified teachers, employed by the school for Mental Retardation and Developmental Disabilities, participate in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries.

Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling toll free 1-888-227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS Ohio funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment.

The CP offers features of both the DBP and DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 13 - PENSION PLANS – (Continued)**

A DBP or CP member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DCP who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the year ended December 31, 2006, plan members were required to contribute 10% of their annual covered salary and the County was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by STRS Ohio, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the ORC provides statutory authority for member and employer contributions. The County's required contribution for pension obligations for the DBP for the years ended December 31, 2006, 2005, and 2004, was \$99,828, \$94,841, and \$104,515, respectively; 100% has been contributed for fiscal years 2006, 2005, and 2004. There were no contributions for the DCP and CP for the fiscal year ended December 31, 2006.

**NOTE 14 - POSTRETIREMENT BENEFIT PLANS**

**A. Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.70% of covered payroll (16.93% for public safety and law enforcement); 4.50% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate (4.00%) plus and an additional factor ranging from .50% to 6.00% annually for the next nine years. In subsequent years, (10 and beyond) health care costs were assumed to increase at 4:00%.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 14 - POSTRETIREMENT BENEFIT PLANS – (Continued)**

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

The number of active contributing participants in the traditional and combined plans was 369,214 as of December 31, 2006. The County's actual employer contributions for 2006 which were used to fund postemployment benefits were \$509,278. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005 (the latest information available) were \$11.1 billion. At December 31, 2005 (the latest information available), the actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

**B. State Teachers Retirement System of Ohio**

Comprehensive health care benefits are provided to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio) and to retire non-certified employee's and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligation to contribute are established by the STRS Ohio based on authority granted by State statute. STRS Ohio is funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended December 31, 2006, the Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the County, this amount was \$7,679.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.5 billion at June 30, 2006. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282.743 million, and STRS had 119,184 eligible benefit recipients.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 15 - OTHER BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws.

County employees earn and accumulate vacation at varying rates depending on length of service. Current policy credits vacation leave on the employee's anniversary date. Accumulated vacation cannot exceed three times the annual accumulation rate for an employee. Employees are paid for 100 percent of earned unused vacation leave upon termination.

Sick leave is earned at various rates as defined by County policy and union contracts. There is no limit on the amount of sick leave that may be accumulated. Sick leave benefits are paid upon retirement based on various rates and maximums depending on the contract.

**B. Health Care Benefits**

Health care benefits are provided to most employees through the County's self-insurance program. The employees share the cost of the monthly premium with the County.

The employees paid from the Mental Retardation and Developmental Disabilities special revenue fund are provided health care, vision, and dental benefits through the Northern Buckeye Education Council Employee Insurance Benefits Program.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 16 - NOTES PAYABLE**

The County's notes activity for the year ended December 31, 2006, was as follows:

	Interest Rate	Balance 12/31/05	Additions	Deductions	Balance 12/31/06
<b>Governmental Activities</b>					
Short-Term Notes					
Bridge Repair	4.00%	\$ 500,000		\$ (500,000)	
Bend Road Improvement	3.13%	250,000		(250,000)	
Airport Improvement	4.20%	139,000		(139,000)	
Airport Improvement	4.45%		\$ 114,000		\$ 114,000
Carryall Tile	3.30%	180,000		(180,000)	
Carryall Tile	4.33%		37,575		37,575
East Side Campus	4.00%	1,700,000		(1,700,000)	
Peterson Ditch	3.52%	58,176		(58,176)	
Peterson Ditch	4.33%		54,375		54,375
Dowe Ditch	3.52%	32,803		(32,803)	
Dowe Ditch	4.33%		28,150		28,150
Highland Ditch	4.30%		80,000		80,000
Total Short-Term Notes		<u>\$ 2,859,979</u>	<u>\$ 314,100</u>	<u>\$ (2,859,979)</u>	<u>\$ 314,100</u>

All of the Peterson notes, Highland Ditch note, and Dowe Ditch notes were issued for ditch improvements. The Airport Improvement notes were issued for various improvements at the airport. The remaining short-term notes issued in 2006 were to finance the various sewer and bridge repairs.

All of the County's bond anticipation notes are backed by the full faith and credit of the County and have a maturity of one year.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 17 - LONG-TERM OBLIGATIONS**

- A. The original issue date, interest rate, original issue amount and balance at December 31, 2006 for the County's long-term obligations are as follows:

	<u>Original Issue Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Balance 12/31/2006</u>
General Obligation Bonds:				
Various Purpose Improvement	1999	3.9 - 5.6%	\$ 2,675,000	\$ 1,995,000
Various Purpose Improvement	2005	5.25	375,000	370,000
Special Assessment Bonds:				
Brunersburg Sewer	2002	4.75	837,531	732,500
Platter Creek	2004	2.25 - 5.0	425,000	400,000
Revenue Bonds:				
Sewer	2005	4.1	60,000	60,000
OPWC Loans:				
Evansport Water	1999	0.0	468,050	292,531
OWDA Loans:				
Express Sewer	2002	1.5	1,356,038	1,116,249
Capmark Commercial Mortgage:				
Sewer	1980	5.0	146,300	86,000
Bond Anticipation Note:				
Bridge Repair	2006	4.32	400,000	400,000
East Side Campus	2006	4.32	1,500,000	1,500,000

The above amounts include long-term obligations of both the governmental and business-type activities.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 17 - LONG-TERM OBLIGATIONS – (Continued)**

The County's long-term obligations activity for the year ended December 31, 2006, was as follows:

	Balance			Balance	Due Within
	12/31/05	Additions	Reductions	12/31/06	One Year
<b>Governmental Activities:</b>					
<u>General obligation bonds:</u>					
Various purpose improvement	\$ 2,445,000		\$ (115,000)	\$ 2,330,000	\$ 125,000
Total general obligation bonds	<u>2,445,000</u>		<u>(115,000)</u>	<u>2,330,000</u>	<u>125,000</u>
<u>Special assessment bonds:</u>					
Brunersburg sewer	763,500		(31,000)	732,500	32,500
Platter creek	415,000		(15,000)	400,000	15,000
Total special assessment bonds	<u>1,178,500</u>		<u>(46,000)</u>	<u>1,132,500</u>	<u>47,500</u>
<u>Other long-term obligations:</u>					
Bond anticipation note payable		\$ 1,900,000		1,900,000	1,900,000
OPWC loans payable	315,932		(23,401)	292,531	23,402
OWDA loans payable	918,286	259,260	(61,297)	1,116,249	62,221
Compensated absences	995,349	627,334	(394,357)	1,228,326	433,076
Total other					
long-term obligations	<u>2,229,567</u>	<u>2,786,594</u>	<u>(479,055)</u>	<u>4,537,106</u>	<u>2,418,699</u>
Total governmental activities					
long-term obligations	<u>\$ 5,853,067</u>	<u>\$ 2,786,594</u>	<u>\$ (640,055)</u>	<u>\$ 7,999,606</u>	<u>\$ 2,591,199</u>
	Balance			Balance	Due Within
	12/31/05	Additions	Reductions	12/31/06	One Year
<b>Business-Type Activities:</b>					
<u>General obligation bonds:</u>					
Various purpose improvement	\$ 45,000		\$ (10,000)	\$ 35,000	\$ 10,000
Total general obligation bonds	<u>45,000</u>		<u>(10,000)</u>	<u>35,000</u>	<u>10,000</u>
<u>Revenue Bonds:</u>					
Sewer Revenue Bonds	60,000			60,000	600
Total revenue bonds	<u>60,000</u>			<u>60,000</u>	<u>600</u>
<u>Other long-term obligations:</u>					
Capmark commercial mortgage	90,000		(4,000)	86,000	4,000
Closure and postclosure liability	2,777,582	\$ 382,503		3,160,085	
Compensated absences	77,163	43,170	(24,814)	95,519	25,041
Total other					
long-term obligations	<u>2,944,745</u>	<u>425,673</u>	<u>(28,814)</u>	<u>3,341,604</u>	<u>29,041</u>
Total business-type activities					
long-term obligations	<u>\$ 3,049,745</u>	<u>\$ 425,673</u>	<u>\$ (38,814)</u>	<u>\$ 3,436,604</u>	<u>\$ 39,641</u>

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 17 - LONG-TERM OBLIGATIONS – (Continued)**

General Obligation Bonds:

A. Various Purpose General Obligation Bonds, Series 1999

The general obligation bonds were issued in 1999 to provide funds for the renovation of County buildings, improvement of the sanitary sewer system, and construction of the Evansport water lines. General obligation bonds are direct obligations of the County for which its full faith and credit are pledged for repayment. The general obligation bonds reported as governmental activities obligations are payable from rental charges, sewer charges, and special assessments to the extent these resources are available. The general obligation bonds reported as business-type activities obligations are payable from unvoted property tax revenues to the extent operating resources of the Sewer enterprise fund are not available to meet the annual debt service requirements. The County expects that all of the debt service on the Sewer enterprise fund bonds will be paid from the revenues of that fund.

The general obligation bonds of the County are subject to mandatory sinking redemption requirements, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the authorizing legislation. That mandatory redemption is to occur on December 1 in each year, at a redemption price equal to 100 % of the principal amount plus accrued interest to the redemption date.

The term bonds maturing on December 1, 2019, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the County. The mandatory redemption is to occur on December 1 in each of the years 2010 through 2018 (with the balance of \$120,000 to be paid at stated maturity on December 1, 2019), at a redemption price equal to 100 % of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2010	\$ 75,000	2015	\$ 100,000
2011	80,000	2016	105,000
2012	85,000	2017	110,000
2013	90,000	2018	115,000
2014	90,000		

The term bonds maturing on December 1, 2024, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the County. The mandatory redemption is to occur on December 1 in each of the years 2020 through 2023 (with the balance of \$140,000 to be paid at stated maturity on December 1, 2024), at a redemption price equal to 100 % of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2020	\$ 115,000
2021	120,000
2022	125,000
2023	135,000

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 17 - LONG-TERM OBLIGATIONS – (Continued)**

The general obligation bonds are also subject to prior redemption on or after December 1, by and at the sole option of the County, either in whole or in part on any date, in integral multiples of \$5,000 plus accrued interest to the redemption date. The date each bond may be called and the redemption prices, expressed as percentages of the principal amount redeemed, are set forth below:

Redemption Dates	Various Purpose Improvements
December 1, 2009 to November 30, 2010	101%
December 1, 2010 to November 30, 2011	100.5
December 1, 2011 and thereafter	100

**B. Various Purpose General Obligation Bonds, Series 2005**

These general obligation bonds were issued in 2005 to provide funds for the improvement of the Doty Run ditch and the State Route 66 sewer. General obligation bonds are direct obligations of the County for which its full faith and credit are pledged for repayment. The general obligation bonds reported as governmental activities obligations are payable from special assessments, to the extent these resources are available.

The general obligation bonds of the County are subject to mandatory sinking redemption requirements, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the authorizing legislation. That mandatory redemption is to occur on December 1 in each year, at a redemption price equal to 100% of the principal amount plus accrued interest to the redemption date.

The term bonds maturing on December 1, 2020, are subject to mandatory sinking fund redemption, pursuant to the terms of the mandatory sinking fund redemption requirements of the County. The mandatory redemption is to occur on December 1 in each of the years 2006 through 2020 (with the balance of \$190,000 to be paid at stated maturity on December 1, 2020), at a redemption price equal to 100% of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

Year	Amount	Year	Amount
2007	\$ 10,000	2014	\$ 15,000
2008	10,000	2015	15,000
2009	10,000	2016	15,000
2010	10,000	2017	15,000
2011	10,000	2018	15,000
2012	10,000	2019	15,000
2013	15,000	2020	20,000

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 17 - LONG-TERM OBLIGATIONS – (Continued)**

The term bonds maturing on December 1, 2025, are subject to mandatory sinking fund redemption, pursuant to the terms of the mandatory sinking fund redemption requirements of the County. The mandatory redemption is to occur on December 1 in each of the years 2007 through 2025 (with the balance of \$185,000 to be paid at stated maturity on December 1, 2025), at a redemption price equal to 100% of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2007	\$ 5,000	2017	\$ 10,000
2008	5,000	2018	10,000
8009	5,000	2019	10,000
2010	5,000	2020	10,000
2011	5,000	2021	10,000
2012	10,000	2022	15,000
2013	10,000	2023	15,000
2014	10,000	2024	15,000
2015	10,000	2025	15,000
2016	10,000		

The general obligation bonds are also subject to prior redemption on or after December 1, 2015 by and at the sole option of the County, either in whole or in part on any date, in integral multiples of \$5,000 and by lot within a maturity, at the redemption price of par, plus accrued interest to the redemption date.

Special Assessment Bonds:

The special assessment bonds are backed by the full faith and credit of the County. In the event that an assessed property owner fails to make payments or insufficient amounts are assessed to fund the debt, the County will be required to pay the related debt. Special assessment bonds are paid from Brunersburg Sewer debt service fund (a nonmajor governmental fund)

Revenue Bonds

In 2005, the County issued sewer revenue bonds in the amount of \$60,000 for the Green Acres sewer system. The bonds will be repaid from the Sewer enterprise fund with charges for sewer service.

OPWC Loans Payable:

In 1999, the County obtained an Ohio Public Works Commission interest free loan, in the amount of \$468,050, for the construction of the Evansport Water system. The loan will be repaid from the Evansport Water debt service fund (a nonmajor governmental fund).

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 17 - LONG-TERM OBLIGATIONS – (Continued)**

OWDA Loans Payable:

The County has entered into debt financing arrangements through the Ohio Water Development Authority (OWDA) to fund construction of wastewater facilities. The amounts due to the OWDA are payable solely from the Express Sewer debt service fund. The loan agreements function similar to a line-of-credit agreement. At December 31, 2006, the County has outstanding borrowings of \$1,116,249. The loan agreement requires semi-annual payments based on the actual amount owed.

Capmark Financial Group Incorporated (former GMAC) Commercial Mortgage Payable:

In 1980, the County obtained a loan through the GMAC Commercial Mortgage Corporation, in the amount of \$146,300, for the Evansport sewer system. In 2006, Capmark Financial Group, Incorporated acquired GMAC Commercial Mortgage Corporation. The loan will be repaid from the Sewer enterprise fund with charges for sewer service.

Bond Anticipation Note Payable:

In 2006, the County entered into a bond anticipation note for \$1,900,000 to finance bridge repairs and building improvements for the Defiance County East Campus building. The bond anticipation note matured on July 27, 2007 and a new one year bond anticipation note was issued for \$1,600,000 to refinance the debt. The bond anticipation notes are back by the full faith and credit of the County.

Compensated Absences Payable:

The compensated absences liability will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund; Dog and Kennel, Mental Retardation and Developmental Disabilities, Job and Family Services, Real Estate Assessment, Motor Vehicle and Gas Tax, DARE, Economic Development, Child Support Enforcement Agency, Emergency 911, Joint Solid Waste, Senior Center, Certificate of Administration, Sarah's House, and Felony Delinquent Care and Custody special revenue funds; and the Landfill and Sewer enterprise funds.

Legal Debt Margin

The Ohio Revised Code provides that the net general obligation debt of the County, exclusive of certain exempt debt, issued without a vote of the electors should not exceed 1 % of the total assessed valuation of the County. The Revised Code further provides that the total voted and unvoted net debt of the County less the same exempt debt should not exceed a sum equal to 3 % of the first \$100,000,000, plus 1.5 % of such valuation in excess of \$100,000,000 and not in excess of \$300,000,000, plus 2.5 % of such valuation in excess of \$300,000,000.

The effect of the debt limitations described above is an overall debt margin of \$15,029,833 at December 31, 2006.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 17 - LONG-TERM OBLIGATIONS – (Continued)**

The following is a summary of the County's future annual debt service requirements for general long-term obligations:

Year Ended	Governmental Activities					
	General Obligation Bonds			Special Assessment Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 125,000	\$ 128,205	\$ 253,205	\$ 47,500	\$ 52,973	\$ 100,473
2008	135,000	120,707	255,707	49,000	51,054	100,054
2009	140,000	113,980	253,980	50,700	48,816	99,516
2010	90,000	106,943	196,943	52,800	46,542	99,342
2011	95,000	101,955	196,955	59,300	44,142	103,442
2012 - 2016	590,000	421,523	1,011,523	329,300	177,395	506,695
2017 - 2021	695,000	243,110	938,110	420,800	89,696	510,496
2022 - 2024	460,000	53,515	513,515	123,100	9,784	132,884
Total	<u>\$ 2,330,000</u>	<u>\$ 1,289,938</u>	<u>\$ 3,619,938</u>	<u>\$ 1,132,500</u>	<u>\$ 520,402</u>	<u>\$ 1,652,902</u>

Year Ended	Governmental Activities						
	Bond Anticipation Note Payable			OPWC Loans	OWDA Loans		Total
	Principal	Interest	Total	Principal	Principal	Interest	
2007	\$ 1,900,000	\$ 82,080	\$ 1,982,080	\$ 23,402	\$ 62,221	\$ 16,511	\$ 78,732
2008				23,403	63,158	15,574	78,732
2009				23,403	64,108	14,624	78,732
2010				23,402	65,073	13,659	78,732
2011				23,403	66,053	12,679	78,732
2012 - 2016				117,012	345,488	48,172	393,660
2017 - 2021				58,506	372,292	21,368	393,660
2022					77,856	877	78,733
Total	<u>\$ 1,900,000</u>	<u>\$ 82,080</u>	<u>\$ 1,982,080</u>	<u>\$ 292,531</u>	<u>\$ 1,116,249</u>	<u>\$ 143,464</u>	<u>\$ 1,259,713</u>

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 17 - LONG-TERM OBLIGATIONS – (Continued)**

The County's future annual debt service requirements, including mandatory sinking fund requirements, payable from the enterprise funds are as follows:

Year Ended	Business-Type Activities								
	General Obligation Bonds			Revenue Bonds			Capmark Commercial Mortgage		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 10,000	\$ 1,855	\$ 11,855	\$ 600	\$ 2,475	\$ 3,075	\$ 4,000	\$ 4,300	\$ 8,300
2008	10,000	1,245	11,245	700	2,450	3,150	5,000	4,100	9,100
2009	15,000	750	15,750	700	2,421	3,121	5,000	3,850	8,850
2010				700	2,393	3,093	5,000	3,600	8,600
2011				800	2,364	3,164	5,000	3,350	8,350
2012 - 2016				4,300	11,312	15,612	31,000	12,500	43,500
2017 - 2021				5,200	10,350	15,550	31,000	3,950	34,950
2022 - 2026				6,500	9,182	15,682			
2027 - 2031				7,800	7,739	15,539			
2032 - 2036				9,600	5,977	15,577			
2037 - 2041				11,800	3,822	15,622			
2042 - 2045				11,300	1,189	12,489			
<b>Total</b>	<b>\$ 35,000</b>	<b>\$ 3,850</b>	<b>\$ 38,850</b>	<b>\$ 60,000</b>	<b>\$ 61,674</b>	<b>\$ 121,674</b>	<b>\$ 86,000</b>	<b>\$ 35,650</b>	<b>\$ 121,650</b>

Conduit Debt:

In 2001, the County issued \$2,325,000 in Adjustable Rate Demand Economic Development Revenue Refunding Bonds. The proceeds were used for the refunding of economic development revenue bonds issued in 1982 to acquire and construct a supermarket. The County is not obligated in any way to pay the debt charges on the bonds from any of its funds, and therefore, the debt has been excluded entirely from the County's debt presentation. As of December 31, 2006, \$2,325,000 of these bonds was outstanding.

In 2002, the County entered into a lease-purchase agreement, in the amount of \$2,000,000, for the purchase of a CT scanner, MR system, and related medical equipment. The County is not obligated in any way to pay the debt charges on the lease-purchase agreement from any of its funds, and therefore, the debt has been excluded entirely from the County's debt presentation. As of December 31, 2006, \$618,304 of this debt was outstanding.

In 2005, the County issued \$700,000 in Ohio Economic Development Revenue Bonds for the purpose of making a loan to assist the Defiance Area YMCA in financing a portion of the cost of acquiring, constructing, improving, installing, and equipping gymnasiums and related facilities. The County is not obligated in any way to pay the debt charges on the bonds from any of its funds, and therefore, the debt has been excluded entirely from the County's debt presentation. As of December 31, 2006, \$672,996 of these bonds were outstanding.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 18 - CLOSURE AND POSTCLOSURE CARE COSTS**

State and federal laws and regulations require the County to place a final cover on the landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date the landfill stops accepting waste, the County reports a portion of these costs as an operating expense in each period based on landfill capacity used as of each balance sheet date.

The \$3,160,085 reported as landfill closure and postclosure costs payable at December 31, 2006, represents the cumulative amount reported to date based on the use of 15% of the estimated capacity of the landfill. The County will recognize the remaining estimated costs of closure and postclosure care of \$1,442,473 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2006. For financial assurance purposes, Ohio EPA requires closure and postclosure costs to be reported based on the worst case scenario of when closure will occur. For 2006, these costs total \$4,602,558. The County expects the landfill to have a remaining life of 92 years. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to either make annual contributions to an EPA controlled trust fund or demonstrate financial assurance through the "Local Government Financial Test". For 2006, the County met the Local Government Financial Test requirements.

The County expects to set aside monies for closure and post closure care obligations at a rate in line with the daily waste consumption of the Landfill. The County expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations), these costs may need to be covered by charges to future landfill users or from future tax revenue.

**NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS**

**A. Northwest Ohio Juvenile Detention, Training, and Rehabilitation Center**

The Northwest Ohio Juvenile Detention, Training, and Rehabilitation Center (Center) is a jointly governed organization among Defiance, Fulton, Henry, and Williams Counties. The Center's board of trustees consists of thirteen members; three from each County and one at-large member. The board of trustees exercises total control over the operation of the Center including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for the Center. In 2006, Defiance County contributed \$351,992 for the Center's operations which represents 27% of total contributions. Information can be obtained from Nancy J. Yackee, Fulton County Auditor, 152 South Fulton Avenue, Suite 165, Wauseon, Ohio 43567.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS – (Continued)**

**B. Four County Board of Alcohol, Drug Addiction, and Mental Health Services**

The Four County Board of Alcohol, Drug Addiction, and Mental Health Services (ADAMHS) is a jointly governed organization among Defiance, Fulton, Henry, and Williams Counties to provide alcohol, drug addiction, and mental health services to individuals in the four counties. The governing board of ADAMHS consists of eighteen members; four members appointed by the Ohio Director of Alcohol and Drug Addition Services, four members appointed by the Ohio Director of Mental Health Services, Defiance and Fulton County Commissioners appointing three members each, and Henry and Williams County Commissioners appointing two members each. The governing board exercises total control over the operation of the ADAMHS including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for the ADAMHS. In 2006, Defiance County contributed \$895,553 in property taxes for the ADAMHS's operations. Information can be obtained from Marlene J. Goodwin, Defiance County Auditor, 221 Clinton Street, Defiance, Ohio 43512.

**C. Corrections Commission of Northwest Ohio**

The Corrections Commission of Northwest Ohio (CCNO) is a jointly governed organization among Defiance, Fulton, Henry, Lucas, and Williams Counties and the County of Toledo. CCNO was established to provide jail space for convicted criminals in the five counties and the County of Toledo and to provide a correctional center for the inmates. CCNO was created in 1986 and occupancy started in 1991. The commission team consists of eighteen members; one judge, one chief law enforcement officer, and one county commissioner or administrative official from each entity. The commission team exercises total control over the operation of CCNO including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for CCNO. In 2006, Defiance County contributed \$1,397,427 for CCNO's operations which represents 9.3% of total contributions. Information can be obtained from Tonya Justus, Fiscal Manager, Corrections Commission of Northwest Ohio, 03151 County Road 2425, Stryker, Ohio 43557.

**D. Four County Solid Waste District**

The Four County Solid Waste District (District) is a jointly governed organization among Defiance, Fulton, Paulding, and Williams Counties to make disposal of waste in the four-county area more comprehensive in terms of recycling, incinerating, and landfilling. The District was created in 1989. The board of directors consists of twelve members; the three commissioners from each county. The board of directors exercises total control over the operation of the District including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for the District. In 2006, Defiance County contributed \$109,935 for the District's operations which represents 21% of total contributions. Information can be obtained from Deborah S. Nester, Williams County Auditor, One Courthouse Square, Bryan, Ohio 43506.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS – (Continued)**

**E. Multi-Area Narcotics Task Force**

The Multi-Area Narcotics Task Force (Task Force) is a jointly governed organization among Defiance, Williams, Fulton, and Putnam Counties and the Cities of Defiance and Bryan. The Task Force is jointly controlled by the chief law enforcement officer of each respective entity. The main source of revenue for the Task Force is from federal grants and local matching funds from the entities. The County has no ongoing financial interest or responsibility for the Task Force. In 2006, Defiance County contributed \$151,894 for the Task Force's operations. Information can be obtained from the Defiance County Sheriff's office, 113 Beide Street, Defiance, Ohio 43512.

**F. Quadco Rehabilitation Center**

The Quadco Rehabilitation Center (Quadco) is a jointly governed organization among Defiance, Fulton, Henry, and Williams Counties. Quadco Rehabilitation Center is a nonprofit corporation which provides services and facilities for training physically and mentally disabled persons. Quadco is responsible for contracting with various agencies to obtain funding to operate the organization. Quadco is governed by an eight-member board composed of two appointees made by each of the four County Boards of Mental Retardation and Developmental Disabilities (County Boards of MRDD). This board, in conjunction with the County Boards of MRDD, assesses the needs of adult mentally challenged and developmentally disabled residents of each County and sets priorities based on available funds. The County provides resources to the Board based on units of service provided to the County. Quadco exercises total control over the operation of Quadco including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for Quadco. In 2006, Defiance County contributed \$710,664 for Quadco's operations which represents 18% of total contributions. Information can be obtained from Terry Fruth, CFO, Quadco Rehabilitation Center, 427 North Defiance Street, Stryker, Ohio 43557.

**G. Maumee Valley Planning Organization**

The Maumee Valley Planning Organization (MVPO) is a jointly governed organization among Defiance, Fulton, Henry, Paulding, and Williams Counties. MVPO is an organization established to improve the social and economic conditions of the region through development and conservation. MVPO is governed by a fifteen member executive council composed of the three county commissioners, the mayor of the largest municipality, three mayors selected by the committee of mayors that represent the incorporated cities and villages, the township trustee association president, the regional planning commission chairman, and two members at large to represent business, industry, labor, agricultural, low income, minority groups, education, and consumer protection activities. The County provides resources to the executive council based on a membership fee and services provided to the County. MVPO exercises total control over the operation of MVPO including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for MVPO. In 2006, Defiance County contributed \$174,056 for MVPO's operations which represents 26% of total contributions. Information can be obtained from Nancy J. Yackee, Fulton County Auditor, 152 South Fulton Avenue, Suite 165, Wauseon, Ohio 43567.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS – (Continued)**

**H. Community Improvement Corporation of Defiance County**

The Community Improvement Corporation of Defiance County (CIC) is a jointly governed organization among Defiance County, the County of Defiance, and the respective villages and townships of Defiance County. The purpose of the CIC is to promote and encourage the establishment and growth of industrial, commercial, distribution, and research facilities within member subdivisions. The CIC is governed by a board of trustees consisting of fifteen self-appointed members. Not less than two-fifths of the members are to be composed of elected officials. Five of these trustees include: a member of the Board of County Commissioners of Defiance County, the Auditor of Defiance County, the Mayor or his/her designated elected official of the County of Defiance, the Mayor or his/her designated elected official of the Village of Hicksville, and the President of the Defiance County Trustees. The remaining members represent private residents of Defiance County or employees of Defiance County businesses or firms. The County provides resources to the board of trustees based on a membership fee. The CIC exercises total control over the operation of the CIC including budgeting, contracting, and designating management. The County has no ongoing financial interest or responsibility for the CIC. In 2006, Defiance County contributed \$50,000 for the CIC's operations which represents 16% of total contributions. Information can be obtained from the Jerry Hayes, Executive Director, 1300 East Second Street, Suite 201, Defiance, Ohio 43512.

**NOTE 20 - INSURANCE POOLS**

**A. County Commissioners Association Service Corporation**

The County is participating in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The County Commissioners Association Service Corporation (CCAOSC) was established through the County Commissioners Association of Ohio (CCAO) as an insurance purchasing pool.

A group executive committee is responsible for calculating annual rate contributions and rebates, approving the selection of a third party administrator, reviewing and approving proposed third party fees, fees for risk management services and general management fees, determining ongoing eligibility of each participant, and performing any other acts and functions which may be delegated to it by the participating employers. The group executive committee consists of seven members. Two members are the president and treasurer of CCAOSC; the remaining five members are representatives of the participants. These five members are elected for the ensuing year by the participants at a meeting held in December of each year. No participant can have more than one member on the group executive committee in any year, and each elected member shall be a County Commissioner.

**B. Northern Buckeye Education Council Employee Insurance Benefits Program**

The Northern Buckeye Education Council Employee Insurance Benefits Program (Program) is a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, and Williams Counties. The Northern Buckeye Education Council and its participating members govern the Program. Financial information can be obtained from Crystal Meyer who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 21 - RELATED ORGANIZATION**

The Defiance County Regional Airport Authority (the Airport Authority) was created by resolution of the County Commissioners under the authority of Chapter 308 of the Ohio Revised Code. The Airport Authority is governed by a five member board of trustees appointed by the County Commissioners. The board of trustees has the authority to exercise all of the powers and privileges provided under the law. These powers include the ability to sue or be sued in its corporate name; the power to establish and collect rates, rentals, and other charges; the authority to acquire, construct, operate, manage, and maintain airport facilities; the authority to buy and sell real and personal property; and the authority to issue debt for acquiring or constructing any facility or permanent improvement. The Airport Authority serves as custodian of its own funds and maintains all records and accounts independent of Defiance County.

Although the County has no obligation to provide financial resources to the Airport Authority, the County Commissioners have in prior years allocated certain funds to the Airport Authority. In 2006, the County contributed \$110,254 to the Airport Authority.

**NOTE 22 - CONTINGENT LIABILITIES**

**A. Litigation**

The County is a party to several legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects. The County management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the County.

**B. Federal and State Grants**

For the period January 1, 2006, to December 31, 2006, the County received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the County believes such disallowances, if any, would be immaterial.

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements	Non-Cash Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
<i>Passed Through Ohio Department of Education</i>				
Food Donation Program	N/A	10.550		\$ 2,262
	065946-LLP4-2006	10.555	\$ 7,494	
National School Lunch Program	065946-LLP4-2007	10.555	5,994	
Total			<u>13,488</u>	<u>2,262</u>
Total U.S. Department of Agriculture			<u>13,488</u>	<u>2,262</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>				
<i>Passed Through Ohio Department of Education</i>				
Special Education Cluster:				
Special Education - Grants to States	065946-6BSF-2007	84.027	49,664	
Special Education - Preschool Grant	065946-PGS1-2007	84.173	32,092	
Total Special Education Cluster			<u>81,756</u>	
State Grants for Innovative Programs	065946-C2S1-2007	84.298	371	
Total U.S. Department of Education			<u>82,127</u>	
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>				
<i>Passed Through Ohio Department of Public Safety Emergency Management Agency</i>				
State Homeland Security Program	2005-GE-T5-0001	97.073	74,800	
Citizens Corp Program Grant	2005-GE-T5-0001	97.053	15,886	
Total U.S. Department of Homeland Security			<u>90,686</u>	
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
<i>Passed Through The Area Office of Aging</i>				
Aging Cluster:				
Grants for Supportive Services and Senior Centers		93.044	31,770	
Special Programs for the Aging -Title III Part C- Nutrition Services		93.045	113,902	
Total Aging Cluster			<u>145,672</u>	
Special Programs for the Aging - Title III Part D - Disease Prevention and Health Promotion		93.043	7,025	
Alzheimer Disease Demonstration Grants to States		93.051	40,840	
Total Area Office of Aging			<u>193,537</u>	
<i>Passed Through Ohio Department of Health</i>				
Social Services Block Grant		93.667	57,741	
<i>Passed Through the Ohio Department of Mental Retardation and Development Disabilities</i>				
Medical Assistance Program (Medicaid: Title XIX )		93.778	621,784	
Medical Assistance Program (CAFS)		93.778	86,859	
Medical Assistance Program (TCM)		93.778	164,981	
Total Medical Assistance Program			<u>873,624</u>	
State Children's Insurance Program		93.767	176	
Total Passed Through the Ohio Department of Mental Retardation and Development Disabilities			<u>873,800</u>	

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>FEDERAL GRANTOR</b>	Pass Through	Federal		
<i>Pass Through Grantor</i>	Entity	CFDA		Non-Cash
<u>Program Title</u>	<u>Number</u>	<u>Number</u>	<u>Disbursements</u>	<u>Disbursements</u>
<i>Passed Through the Ohio Department of Job and Family Services</i>				
Child Abuse and Neglect State Grants	86-6020-06	93.669	2,000	
Child Welfare Services State Grants -Title IV-B Child Welfare	86-6010-05	93.645	9,162	
	86-6010-06	93.645	23,442	
Child Welfare Services State Grants - Title IV-B Foster Care	86-6520-06	93.645	15,356	
Total Child Welfare Services State Grants			<u>47,960</u>	
Promoting Safe and Stable Families Programs - ESSA Preservation	86-6035-05	93.556	122	
	86-6035-06	93.556	2,976	
Promoting Safe and Stable Families Programs - ESSA Reunification	86-6036-05	93.556	1,167	
	86-6036-06	93.556	3,080	
Total Promoting Safe and Stable Families Programs			<u>7,345</u>	
Total Passed Through the Ohio Department of Jobs and Family Services			<u>57,305</u>	
Total U.S. Department of Health and Human Services			<u>1,182,383</u>	
<b>U.S. DEPARTMENT OF LABOR</b>				
<i>Passed Through Montgomery County WIA Area 7</i>				
Workforce Investment Act Cluster:				
Workforce Investment Act - Adult	N/A	17.258	57,331	
Workforce Investment Act - Adult Administration	N/A	17.258	4,778	
Total Workforce Investment Act - Adult			<u>62,109</u>	
Workforce Investment Act - Youth	N/A	17.259	55,725	
Workforce Investment Act - Youth Administration	N/A	17.259	4,103	
Total Workforce Investment Act - Youth			<u>59,828</u>	
Workforce Investment Act - Dislocated Worker	N/A	17.260	25,675	
Workforce Investment Act - Dislocated Worker Administration	N/A	17.260	3,201	
Total Workforce Investment Act - Dislocated Worker			<u>28,876</u>	
Total U.S. Department of Labor			<u>150,813</u>	
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>				
<i>Passed Through Ohio Department of Development:</i>				
Community Development Block Grant (Formula Grant)	B-F-03-019-1	14.228	91,000	
Community Development Block Grant (Economic Development)	B-E-04-019-1	14.228	140,000	
Community Development Block Grant (Water and Sewer)	B-W-03-019-1	14.228	110,344	
Community Development Block Grant (Chip)	B-C-04-019-1	14.228	115,050	
Total Community Development Block Grant			<u>456,394</u>	
Home Investment Partnerships Program (Chip)	B-C-04-019-2	14.239	278,654	
Total U.S. Department of Housing and Urban Development			<u>735,048</u>	

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements	Non-Cash Disbursements
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>				
<i>Passed Through Ohio Department of Transportation</i>				
Highway Planning and Construction	06N110	20.205	75,000	
	03N049	20.205	12,598	
	05N019	20.205	14,290	
	05N119	20.205	204,655	
		20.205	<u>3,323</u>	
Total U.S. Department of Transportation			<u>309,866</u>	
<b>U.S. DEPARTMENT OF JUSTICE</b>				
<i>Passed Through the Office of Criminal Justice Services</i>				
Crime Victims Assistance	2006 VAGENE061	16.575	51,434	
	2007 VAGENE061	16.575	<u>22,943</u>	
Total Crime Victims Assistance			74,377	
Edward Byrne Justice Assistance Grant Formula Program	2005-JG-A01-6407	16.738	110,000	
Edward Byrne Memorial Formula Grant - Drug Control and Systems	2004-DG-A01-7014	16.738	<u>29,000</u>	
Total Edward Byrne Memorial Formula Grant			139,000	
Community Prosecution and Project Safe Neighborhoods	2003-PS-PSN-307A	16.609	<u>12,894</u>	
Total U.S. Department of Justice			<u>226,271</u>	
<b>U.S. ELECTION ASSISTANCE COMMISSION</b>				
<i>Passed Through the Office of the Ohio Secretary of State</i>				
Voter Education and Poll Worker Training Grant	05-SOS-HAVA-20	39.011	1,510	
Election Assistance for Individuals with Disabilities Grant	06-SOS-HHHS-20	93.617	<u>5,011</u>	
Total U.S. Election Assistance Commission			<u>6,521</u>	
<b>U.S. ENVIRONMENTAL PROTECTION AGENCY</b>				
Congressionally Mandated Projects	XP-00E09001-0	66.202	187,704	
<b>Total</b>			<u><b>\$ 2,984,907</b></u>	<u><b>\$ 2,262</b></u>

*The accompanying notes are an integral part of this schedule.*

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FISCAL YEAR ENDED DECEMBER 31, 2006**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the County's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

**NOTE C – FOOD DONATION PROGRAM**

Program regulations do not require the County to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.

**NOTE D - COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS**

The County has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-moderate income households and to eligible persons and to rehabilitate homes. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the County passed through the Ohio Department of Development. The initial loan of this money is recorded as a disbursement on the accompanying Schedule of Federal Awards Expenditures (the Schedule). Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the Schedule.

These loans are collateralized by mortgages on the property and by uniform commercial codes on equipment. At December 31, 2006, the gross amount of loans outstanding under this program was \$255,137. Delinquent amounts due are \$81,193.

**NOTE E - MATCHING REQUIREMENTS**

Certain Federal programs require that the County contribute non-Federal funds (matching funds) to support the Federally-funded programs. The County has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

**NOTE F – HOMELAND SECURITY CLUSTER**

The County reported the following federal programs for the Homeland Security Cluster on the Schedule of Expenditures of Federal Awards. Several programs for federal fiscal year 2005 were incorporated into the Homeland Security Grant Program (CFDA 97.067) in accordance with the guidance from the U.S. Department of Homeland Security.

<u>CFDA #</u>	<u>Program</u>	<u>Amount</u>
97.053	Citizen Corps	\$15,886
97.073	State Homeland Security Program	74,800
<b>97.067</b>	<b>Homeland Security Grant Program</b>	<b><u><u>\$90,686</u></u></b>



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Defiance County  
500 Court Street, Suite A  
Defiance, Ohio 43512-2171

To the Board of Commissioners:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Defiance County, (the County) as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements and have issued our report thereon dated August 13, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the County's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the County's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2006-001.

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[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the County's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe the significant deficiency described above is also a material weakness.

We also noted certain internal control matters that we reported to the County's management in a separate letter dated August 13, 2006.

### **Compliance and Other Matters**

As part of reasonably assuring whether the County's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the County's management in a separate letter dated August 13, 2007.

We intend this report solely for the information and use of the audit review committee, management, Board of Commissioners, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

August 13, 2007



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Defiance County  
500 Court Street, Suite A  
Defiance, Ohio 43512-2171

To the Board of Commissioners:

### Compliance

We have audited the compliance of Defiance County (the County) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended December 31, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the County's major federal programs. The County's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Defiance County complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended December 31, 2006. In a separate letter to the County's management dated August 13, 2007 we reported other matters related to federal noncompliance not requiring inclusion in this report.

### Internal Control Over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that the entity's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the County's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of the audit review committee, management, Board of Commissioners, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

August 13, 2007

**FINANCIAL CONDITION  
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2006**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Community Development Block Grant CFDA 14.228, Home Investment Partnership CFDA 14.239, and Edward Byrne Justice Assistance CFDA 16.579
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**FINDING NUMBER 2006-001**

**Material Weakness**

**Monitoring Financial Statements**

Accurate financial reporting is the responsibility of the fiscal officer and governing board and is essential to ensure the information provided to the readers of the financial statements are fairly stated.

The 2006 financial statements contained material errors, such as the following:

- Estimated Landfill Closure and Post Closure Liability was overstated by \$1,188,835.
- Net Assets Restricted for Debt was understated by \$2,915,463.
- Construction in Progress was overstated and Depreciable Capital Assets was understated by \$1,667,971.

Fifteen adjusting entries were posted to the financial statements to correct these and other errors. The financial statements presented have been restated to reflect these corrections.

To ensure the County's financial statements and notes to the statements are complete and accurate, the Board of Commissioners should adopt policies and procedures, including a final review of the statements, management discussion and analysis, and notes to the financial statements by the County Auditor and the Board of Commissioners, to identify and correct errors and omissions.

**Official's Response**

We did not receive a response from Officials to this finding.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
--

None



**Mary Taylor, CPA**  
Auditor of State

**FINANCIAL CONDITION**

**DEFIANCE COUNTY**

**CLERK'S CERTIFICATION**

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
SEPTEMBER 13, 2007**